

QUALITY®
made by **AAREAL**

Analyst Conference Call

Q3 2016 results

November 10, 2016
Hermann J. Merkens, CEO

Aareal

Agenda

- Highlights
- General environment
- Group results Q3 2016 at a glance
- Segment performance
- Group results Q3 2016
- B/S structure, capital & funding position
- Asset quality
- Outlook 2016

- Appendix
- Definitions and Contacts

Highlights Q3 2016

FY-outlook for operating profit and new business raised

Key facts and figures at a glance

Successful development

- Q3 operating profit: € 74 mn (9M: € 281 mn)
- Q3 new business: € 1.6 bn (9M: € 6.0 bn)
- FY-new business target raised to € 8 bn - € 9 bn
- Aareon sales and EBIT increased as planned (YtD)
- Implementation of “Aareal 2020” on track
- FY-operating profit target raised to € 360 mn - € 380 mn, including expected positive one-off effect (€ 28 mn) in Q4 2016

General environment

- US-recovery still on track but lower than expected, Europe with moderate growth, China's growth rate is slowing down
- Brexit causes political and economic uncertainties, ongoing geopolitical risks and tensions e.g. in Russia and Turkey
- Diverging monetary policies between ECB and FED: but no major weakening of the EUR expected
- ECB has broadened QE, further steps possible: enormous impact on capital markets - risking asset bubbles and therefore risks from LTVs partly based on extreme low cap rates
- High liquidity on property market, but decreasing transaction volumes in 9M 2016 (vs. 9M 2015).
Some markets positive: e.g. the Netherlands, or almost stable e.g. France, Germany very strong in Q3 2016
- Stable to moderately increasing property values and rents in most European countries as well as in North America
- Intensive competition for commercial real estate financing, European and US margins bottoming out
- Uncertainties about regulatory requirements, especially regarding Basel IV

Main takeaways

- ➔ Main focus for new business in markets with attractive risk/return profile like North America
- ➔ In Turkey and Russia only renewals; still prepared to finance in the UK
- ➔ Partly tightened requirements for new business regarding LTV
- ➔ Regulatory projects still in progress



Group results Q3 2016 at a glance

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Q3 2016 at a glance

Another strong quarter

	Q3 2016	Q2 2016	Q1 2016	Q4 2015	Q3 2015	Comments
€ mn						
Net interest income <i>(excl. unplanned effects from early repayments)</i>	175 (171)	177 (175)	180 (180)	198 (183)	214 (192)	NII reflects <ul style="list-style-type: none"> ▪ Robust margins – declining Portfolio ▪ € 32 mn effects from early repayments (9M)
Allow. for credit losses	33	29	2	42	37	In line with full year target
Net commission income	44	47	46	52	40	Aareon on track
Admin expenses	127	144	146	138	147	€ 7 mn one-offs from integration as well as from project / investment costs
Operating profit	74	120	87	92	82	Another strong quarter
Earnings per share [€]	0.70	1.23	0.85	1.01	0.78	



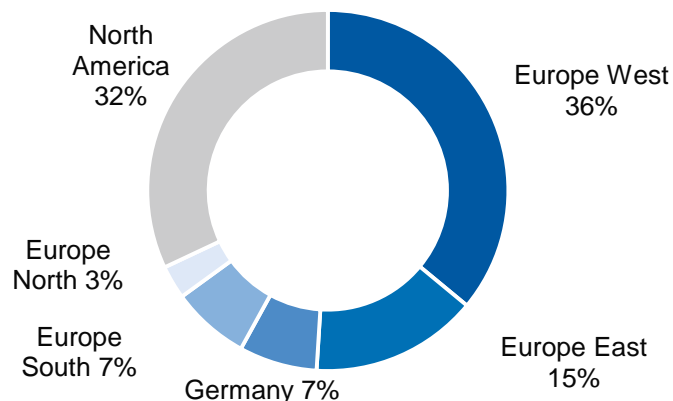
Segment performance

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Structured property financing

New business FY-target raised

New business in Q3 2016 by region¹⁾

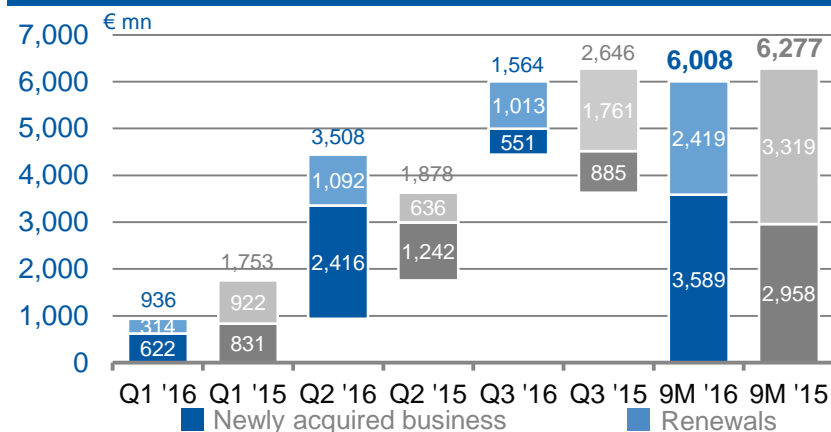


P&L SPF Segment	Q3 '16	Q2 '16	Q1 '16	Q4 '15	Q3 '15
€ mn					
Net interest income	179	181	182	199	214
Loan loss provision	33	29	2	42	37
Net commission income	2	1	2	2	2
Net result from trading / non-trading / hedge acc.	12	69	10	6	-3
Admin expenses	77	94	95	85	101
Others	2	0	-1	14	14
Operating profit	85	128	96	94	89

1) Incl. renewals

2) Newly acquired business

New business origination



- New business plan adjusted to € 8-9 bn to achieve targeted year-end core-portfolio size (lower end of € 25-27 bn)
- Long term target portfolio to be likely at the lower end of the given range, strengthening off-balance lending in line with "Aareal 2020"
- Gross margins²⁾ in Q3 2016 of around 270 bps (230 - 240 bps after FX)
- € 32 mn effects from early repayments (9M)
- Closing Aqvatrium / Fatburen in April 2016 with a positive € 61 mn effect

Consulting / Services

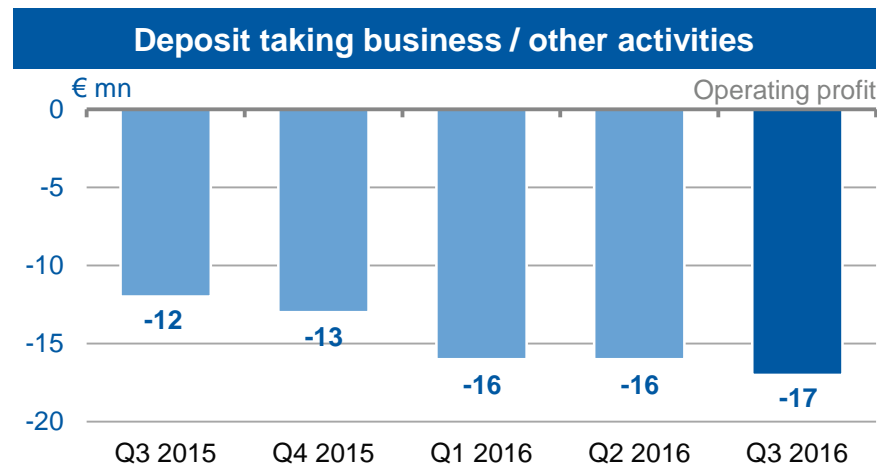
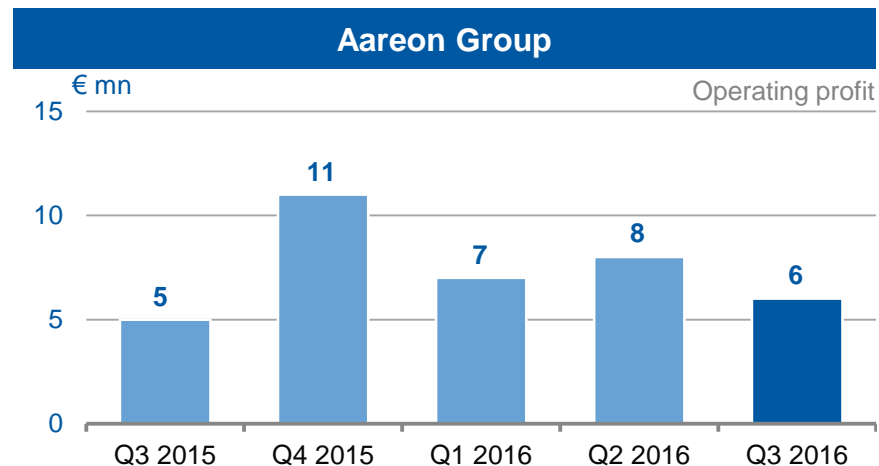
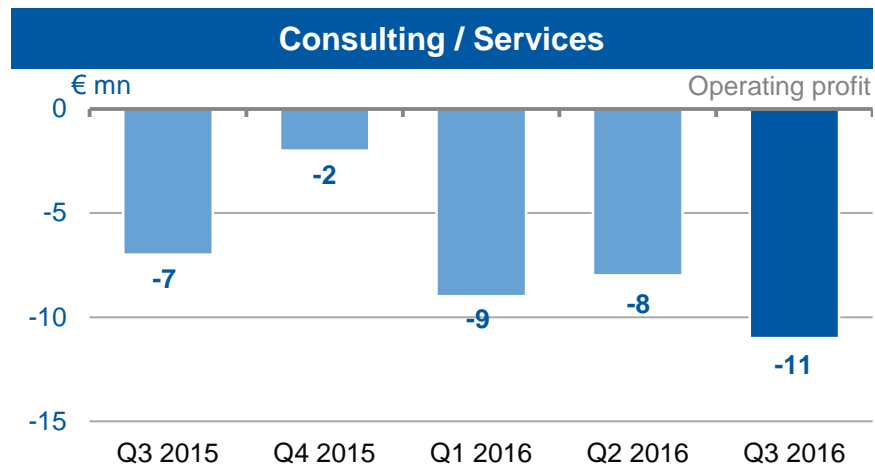
Aareon on track, above previous year-level

P&L C/S Segment	Q3 '16	Q2 '16	Q1 '16	Q4 '15	Q3 '15
€ mn					
Sales revenue	47	52	49	56	44
Own work capitalised	1	2	1	0	2
Changes in inventory	0	0	0	0	0
Other operating income	2	0	1	4	2
Cost of material purchased	8	9	7	7	5
Staff expenses	36	35	36	37	35
D, A, impairment losses	3	3	3	3	3
Results at equity acc. investm.	0	0	0	0	0
Other operating expenses	14	15	14	15	12
Results from interest and similar	0	0	0	0	0
Operating profit	-11	-8	-9	-2	-7

- Aareon sales revenues (€ 49 mn vs. € 42 mn in Q3 2015) again above previous year level and in line with full year target
- Migration ERP-system GES / Wodis Sigma according to plan
- Digitisation:
 - Further development of Aareon Smart World according to plan
 - Digital platform development on track
 - Sales of digital add-on products across countries intensified
 - Co-operation with PropTech start-ups
- Deposit volume from housing industry of Ø € 9.5 bn on a high level (€ 9.5 bn Ø in Q2 2016)
- Deposit margins further burden segment result due to low-interest environment
- Housing industry deposits generate a stable funding base, crisis-proven

Consulting / Services

Aareon above previous year-level and in line with full year target



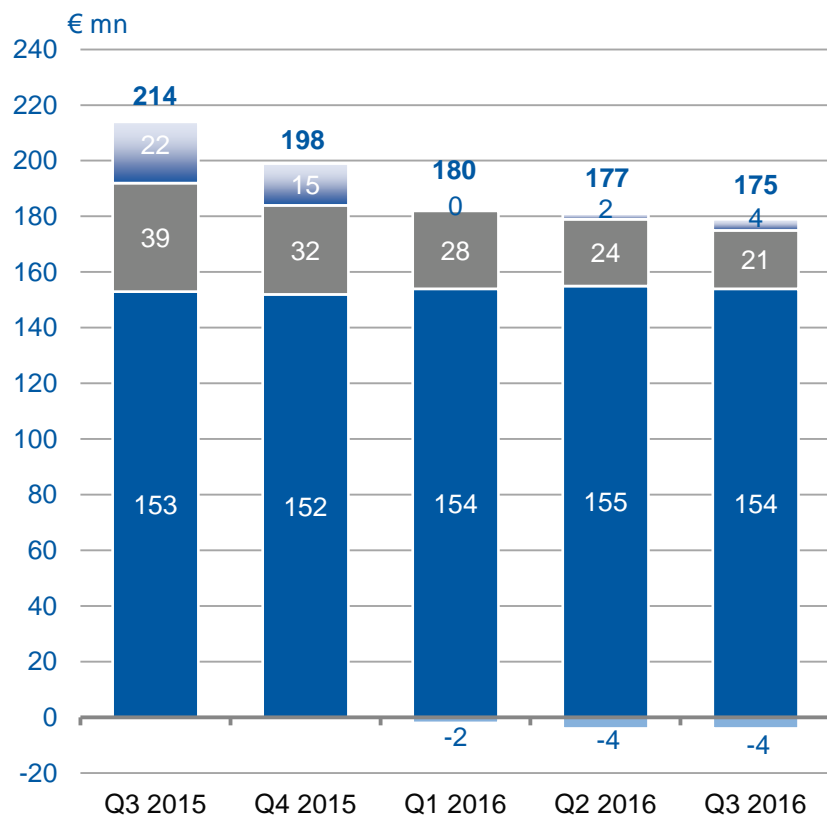


Group results Q3 2016

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Net interest income

Robust margins – declining NCA



- NII effects from early repayments²⁾
- NII NCA (linear approximation)
- NII Core
- NII C/S

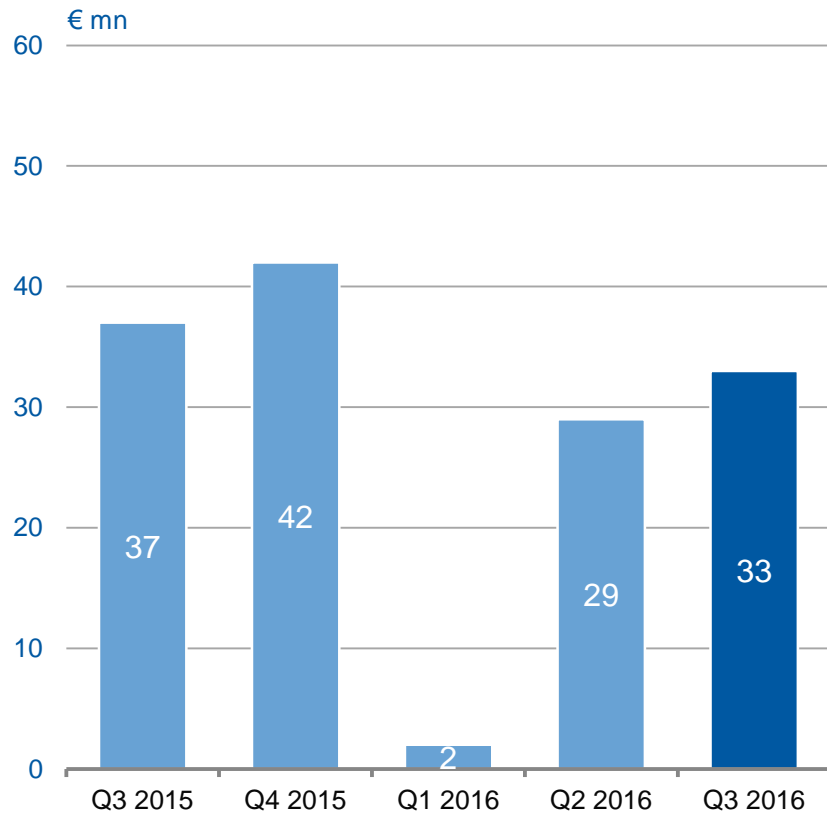
1) Newly acquired business

2) Additional effects exceeding originally planned repayments

- Gross margins¹⁾ in Q3 2016 of around 270 bps (230 – 240 bps after FX)
- NII effected by run down of non core assets as planned
- € 32 mn effects from early repayments (9M)
- Core CRE portfolio: € 25.5 mn (06/2016: € 26.8 mn)
- NII Consulting / Services still burdened by interest rate environment
- Aareal Bank already fulfils future NSFR / LCR requirements
- Even with the core portfolio size closer to the lower end of the originally guided range: in line to achieve NII-target

Allowance for credit losses (LLP)

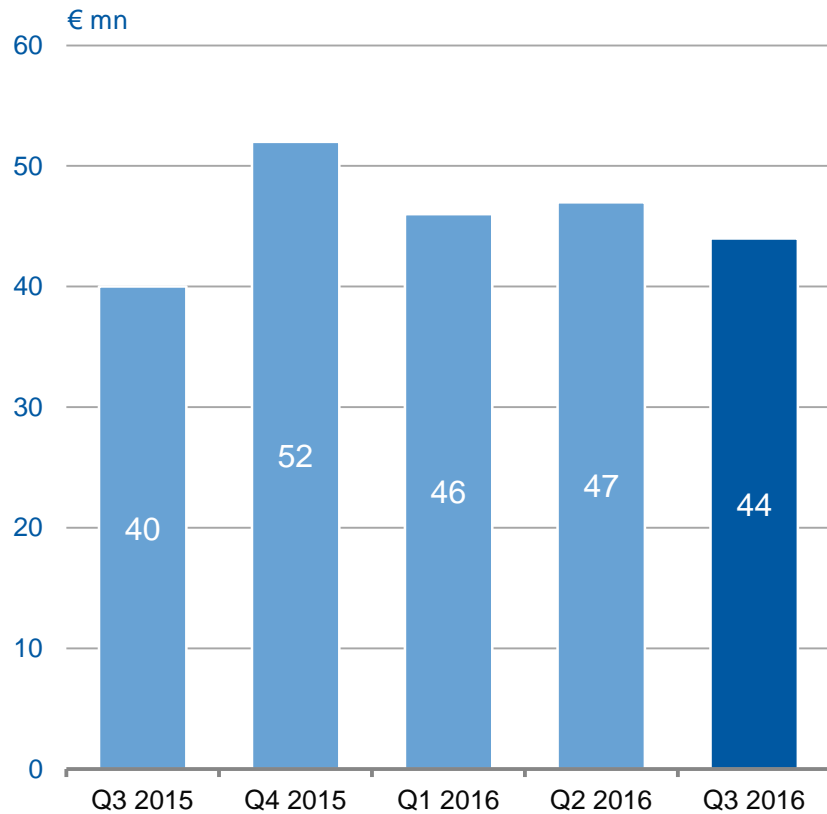
In line with full year target



- No additional NPL's in Italian portfolio

Net commission income

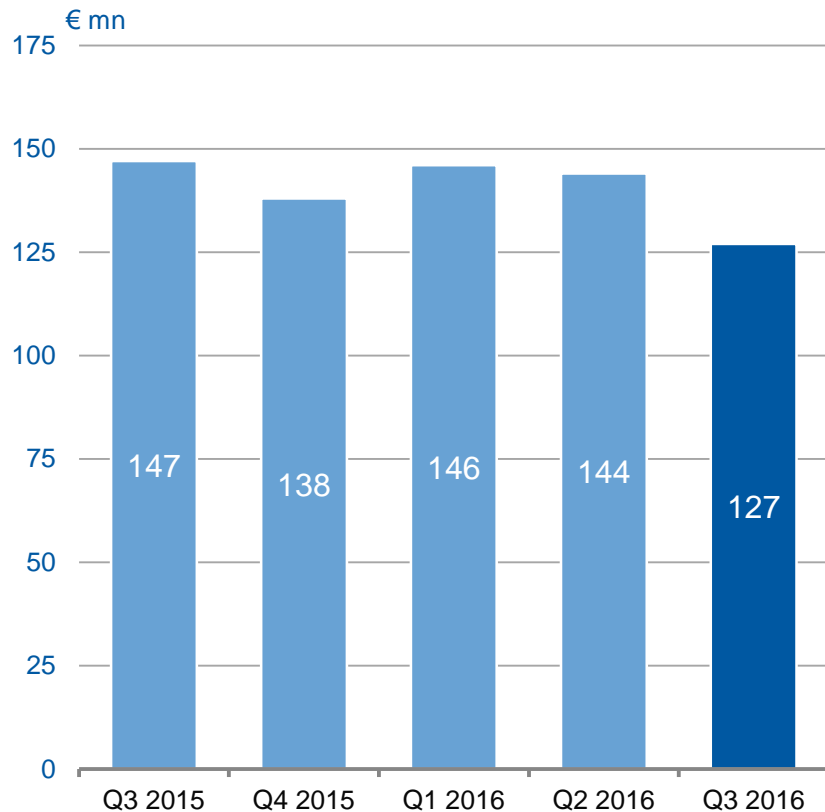
Aareon above previous year level



- Aareon sales supporting FY-EBIT target
- Q3 2016 with expected seasonal summer dip
- Q4 2015 with seasonal effects
- First time consolidation of Aareon's new acquisitions in Q4 2015 (phi-Consulting, Square DMS)

Admin expenses

Lower integration costs in Q3



- Q3 figures include
 - € 7 mn one-offs from integration as well as from project / investment costs
- Q2 figures include
 - € 30 mn one-offs from integration as well as from project / investment costs
- Q1 figures include
 - € 17 mn for the European bank levy for the fiscal year 2016
 - € 10 mn one-offs from integrations as well as from project / investment costs
- Operating admin expenses for Aareon's new acquisitions phi-Consulting and Square DMS (since Q4 2015)

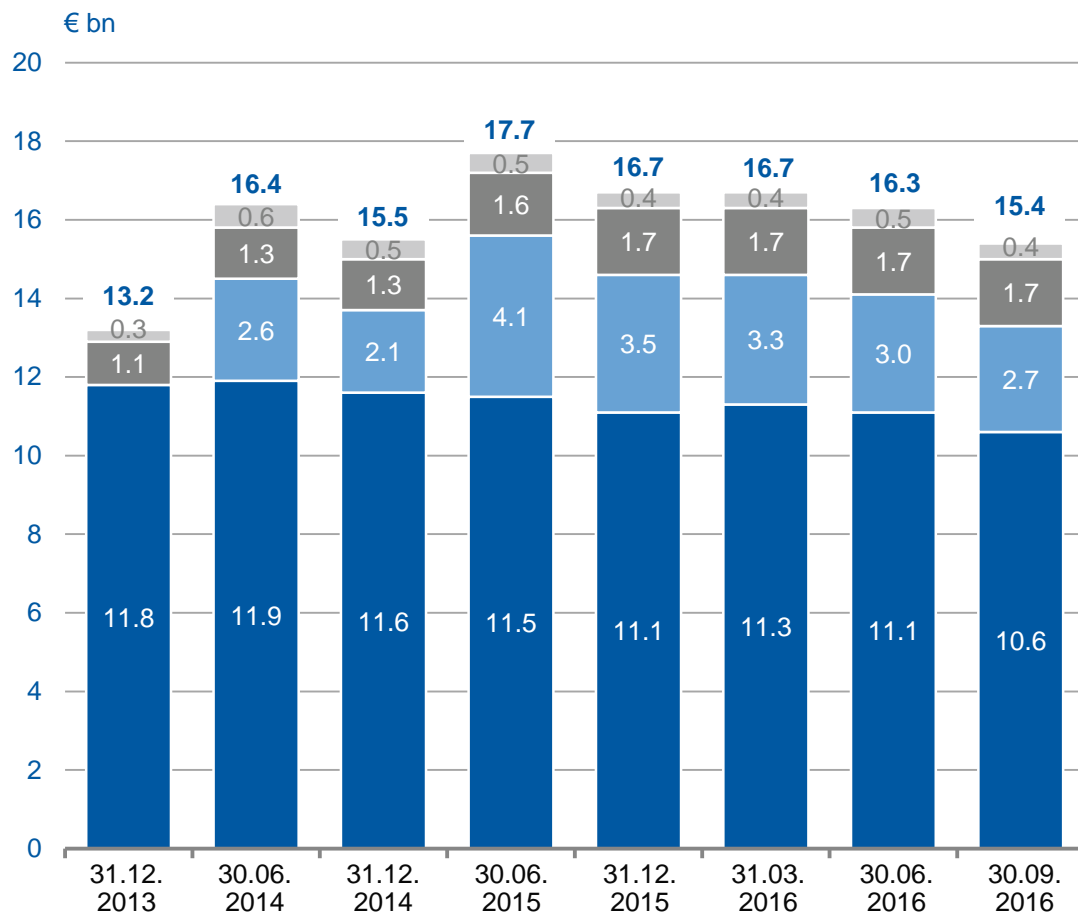


B/S structure, capital & funding position

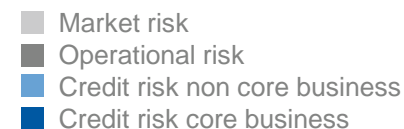
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RWA development

Successful run down of NCA

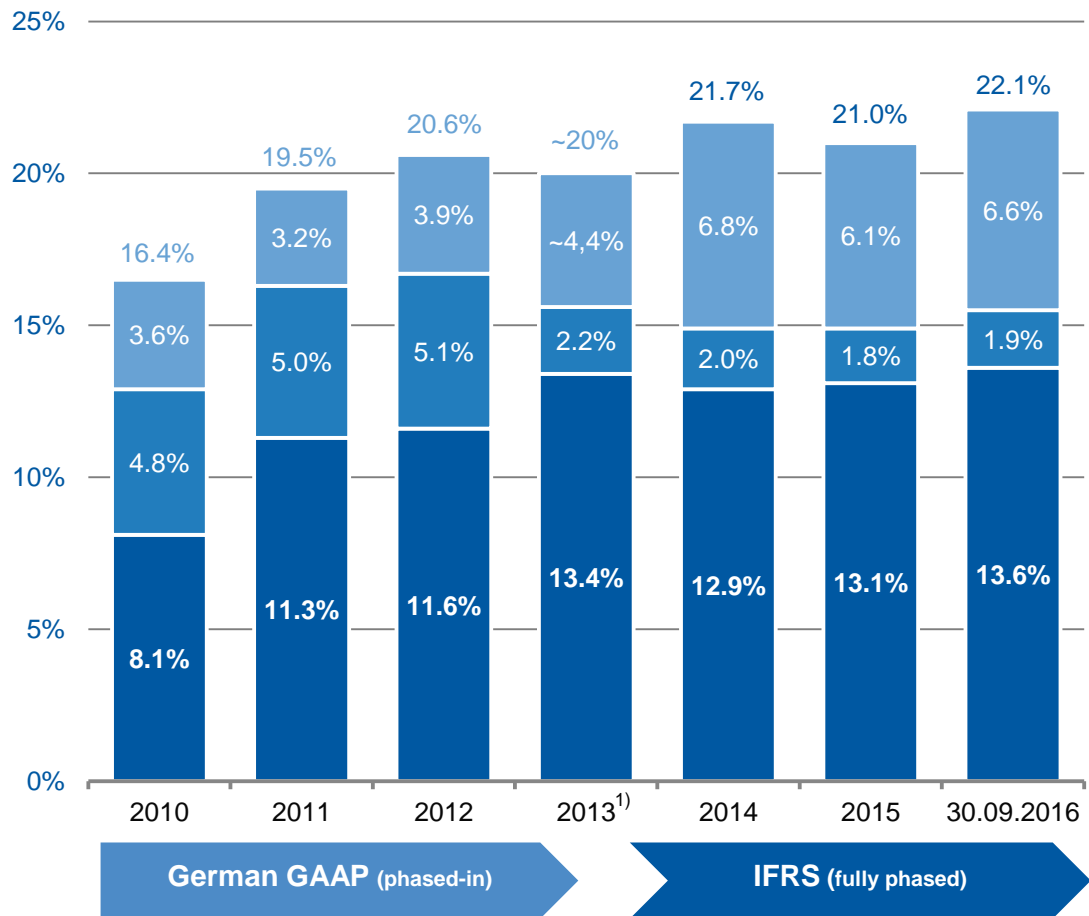


- Decreasing RWA from NCA reduction
- Operational risk already based on standardised approach
- RWA from “Financials” already close to CRSA-level



Capital ratios

Strong development



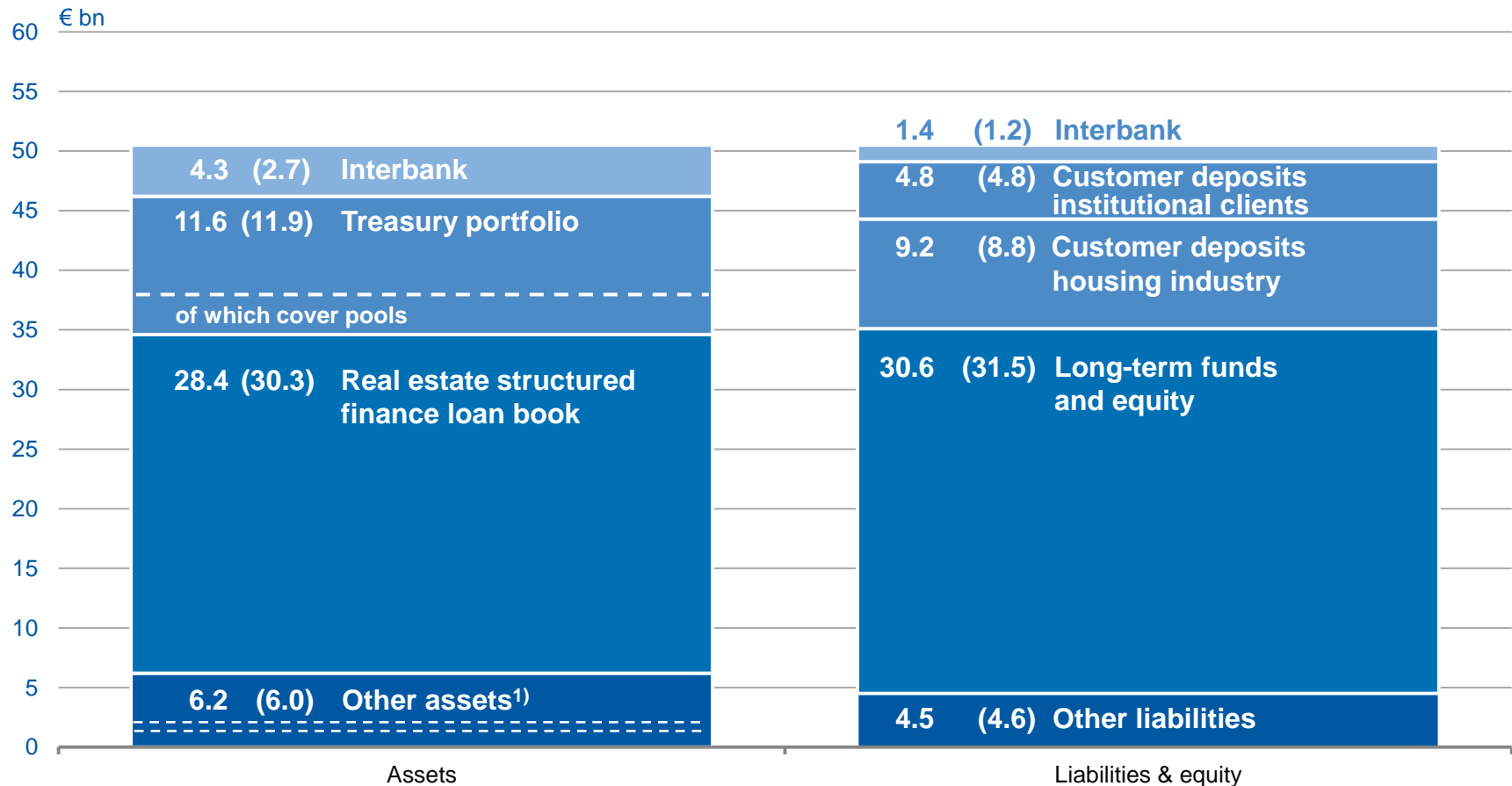
- Regulatory uncertainties buffered by very strong capital ratios
- Instruments assumed to mature until 2018 (planning period) are excluded from the fully phased ratios
- Bail-in capital ratio (acc. to our definition): above 8%
- T1-Leverage ratio as at 30.09.2016: 5.1% (fully phased)

1) As at 01.01.2014, published 20.02.2014

Asset- / Liability structure according to IFRS

As at 30.09.2016: € 50.5 bn (30.06.2016: € 50.9 bn)

- Conservative balance sheet with structural over borrowed position
- Average maturity of long term funding > average maturity of RSF loans

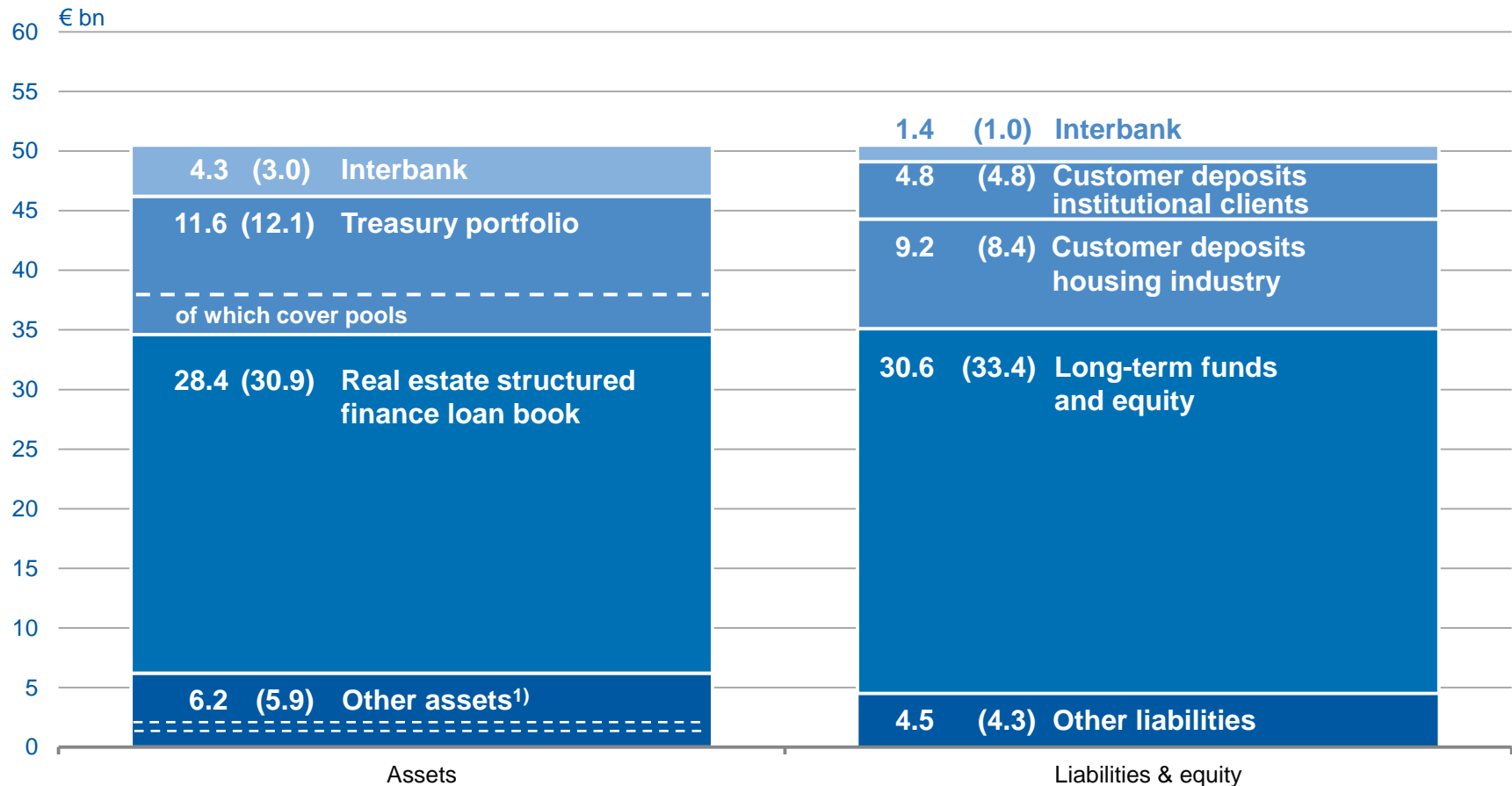


1) Other assets includes € 1.2 bn private client portfolio and WIB's € 0.7 bn public sector loans

Asset- / Liability structure according to IFRS

As at 30.09.2016: € 50.5 bn (31.12.2015: € 51.9)

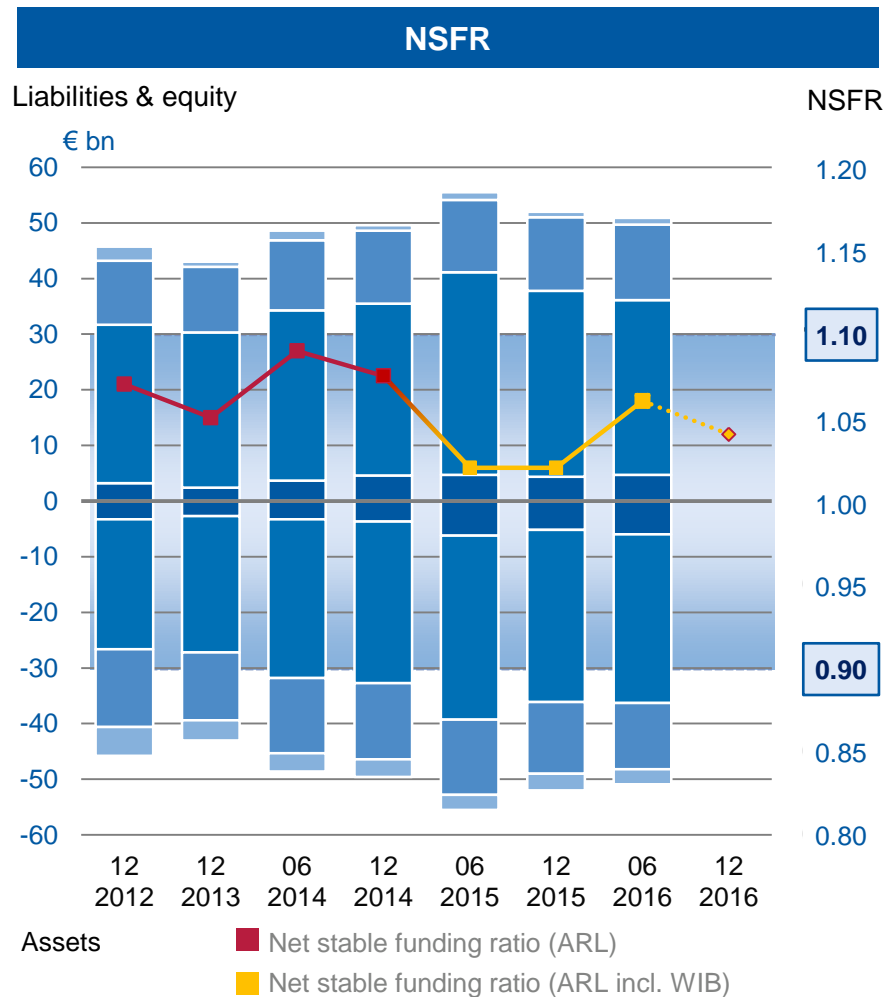
- Conservative balance sheet with structural over borrowed position
- Average maturity of long term funding > average maturity of RSF loans



1) Other assets includes € 1.2 bn private client portfolio and WIB's € 0.7 bn public sector loans

Net stable funding- / liquidity coverage ratio

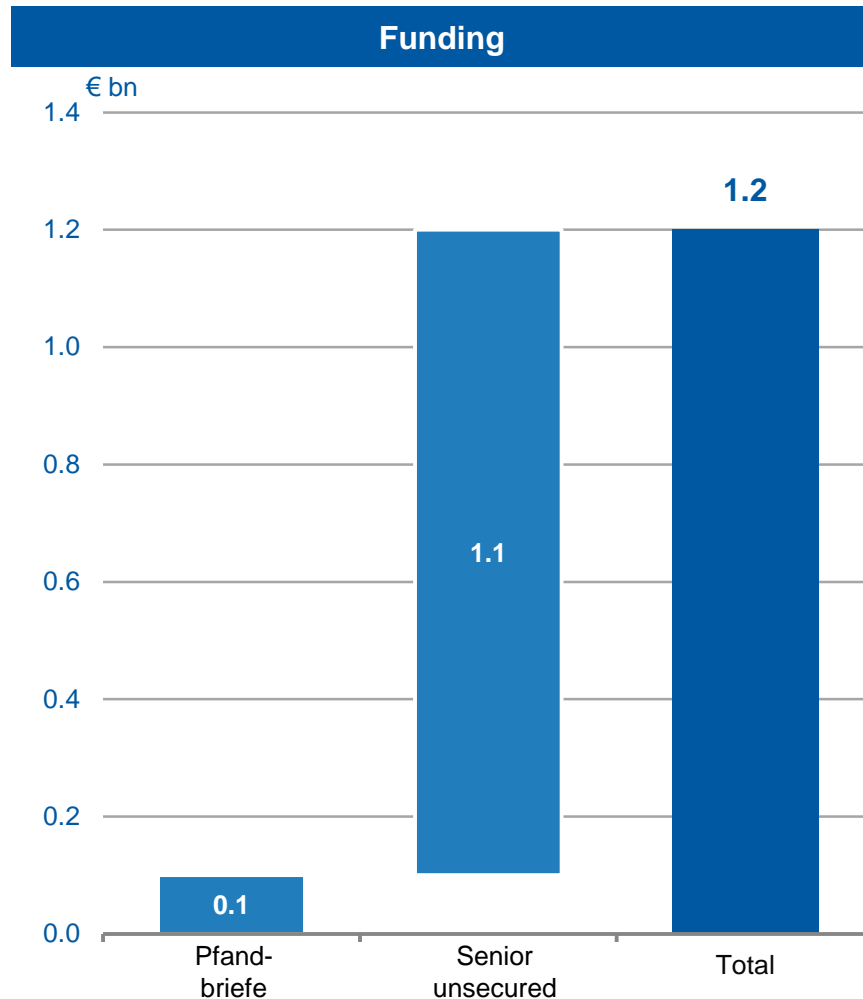
Sound liquidity position despite WestImmo takeover



- Aareal Bank already fulfils future requirements
 - NSFR > 1.0
 - LCR >> 1.0
- Basel III and CRR require adherence of specific liquidity ratios starting end 2018
- As intended, additional funding requirements from acquisition of WestImmo covered by NSFR surplus

Refinancing situation 9M 2016

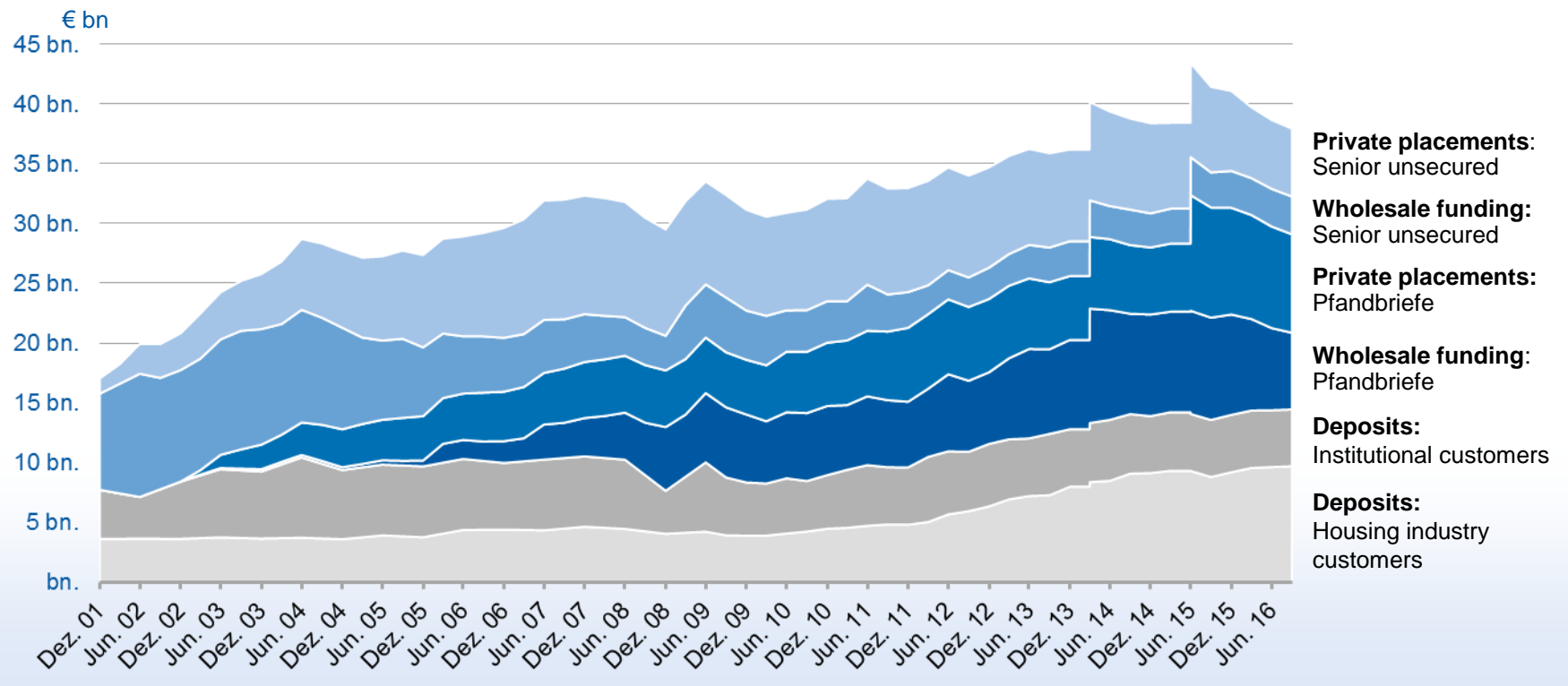
Successful funding activities



- Total funding of € 1.2 bn in 9M 2016: mainly senior unsecured (€ 1.1 bn)
- Low Pfandbrief issuance due to acquisition of Westlmmo
- Backbone of capital market funding is a loyal, granular, domestic private placement investor base
 - Hold-to-maturity investors: over 600
 - Ticket size: € 10 mn - € 50 mn

Refinancing situation

Diversified funding sources and distribution channels



- Aareal Bank has clearly reduced its dependency on wholesale funding
- 2002 long term wholesale funding accounted for 47% of overall funding volumes – by 30.09.2016, this share has fallen below 30% (or even below 10% without Pfandbriefe)

As at 30.09.2016



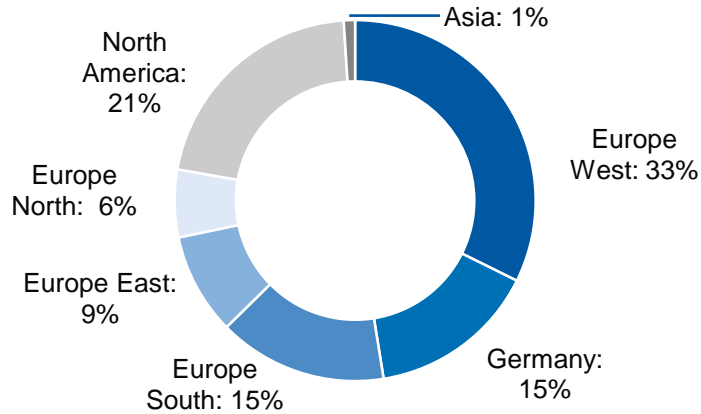
Asset quality

Aareal

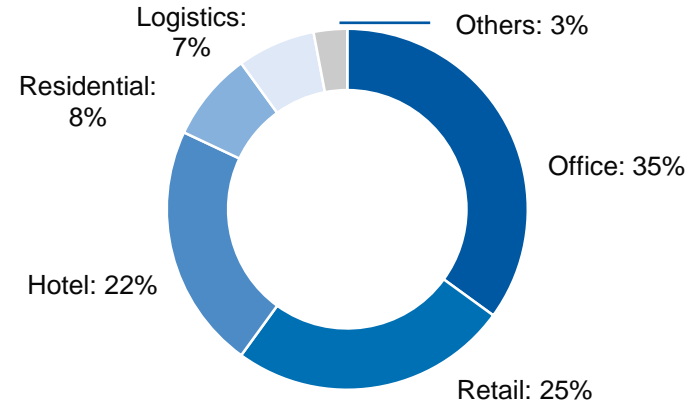
Property finance portfolio¹⁾

€ 28.4 bn highly diversified and sound

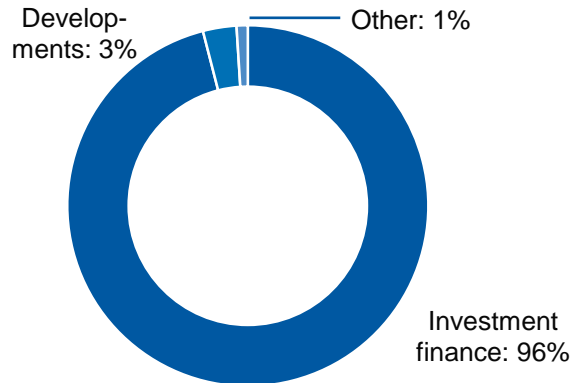
Portfolio by region



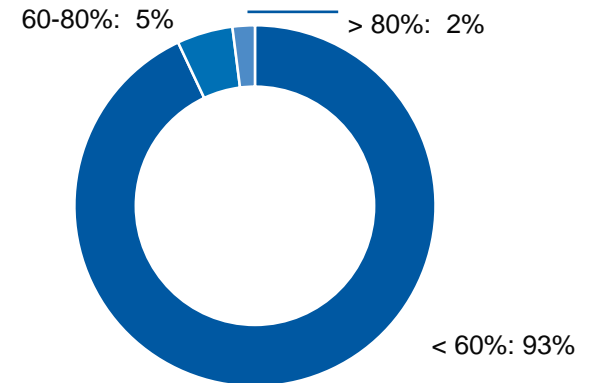
Portfolio by property type



Portfolio by product type



Portfolio by LTV ranges²⁾



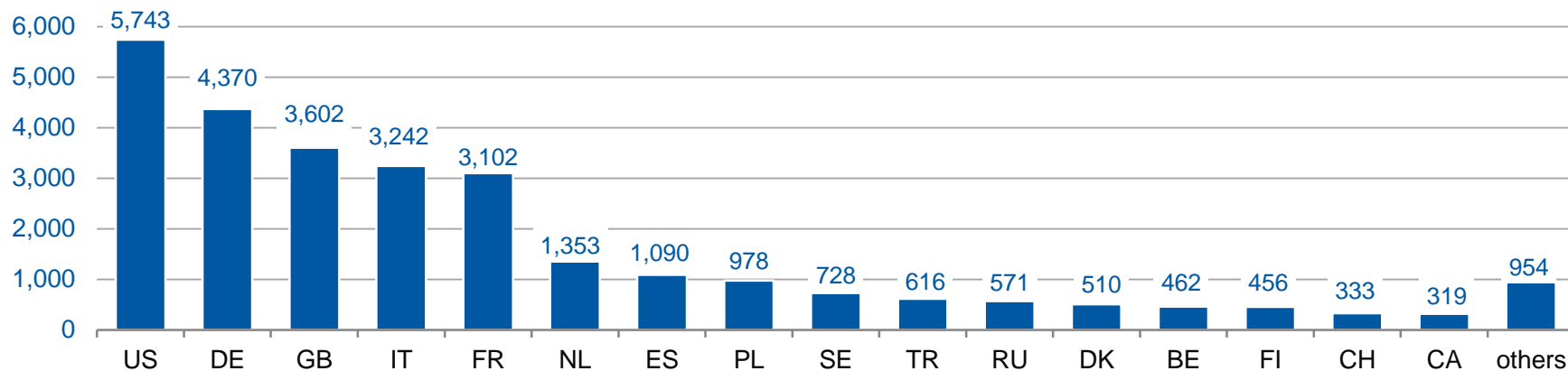
1) CRE business only, private client business (€ 1.2 bn) and WIB's public sector loans (€ 0.7 bn) not included

2) Performing business only, exposure as at 30.09.2016

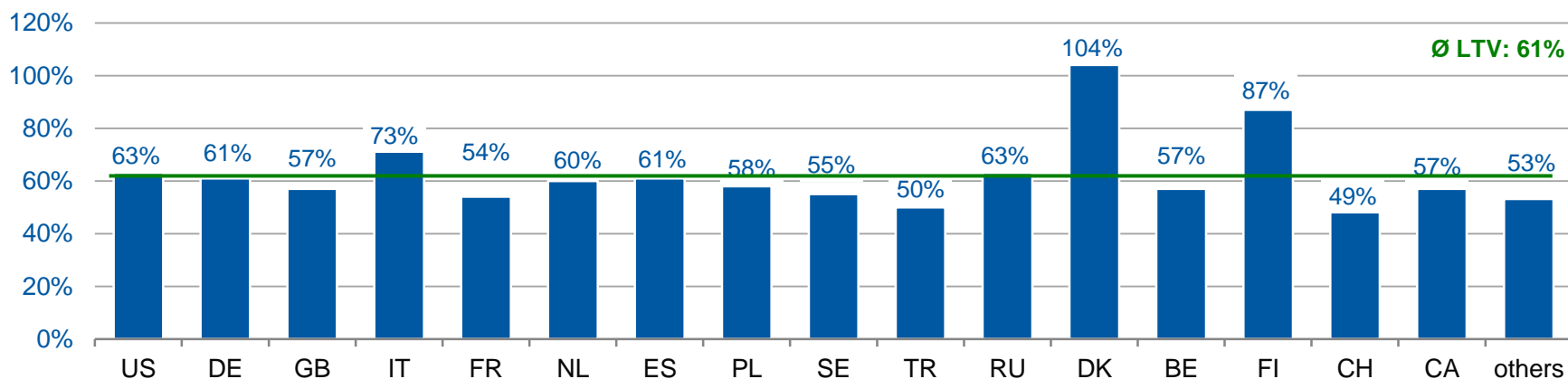
Property finance portfolio¹⁾

Portfolio details

Total property finance portfolio by country (€ mn)



LTV by country²⁾



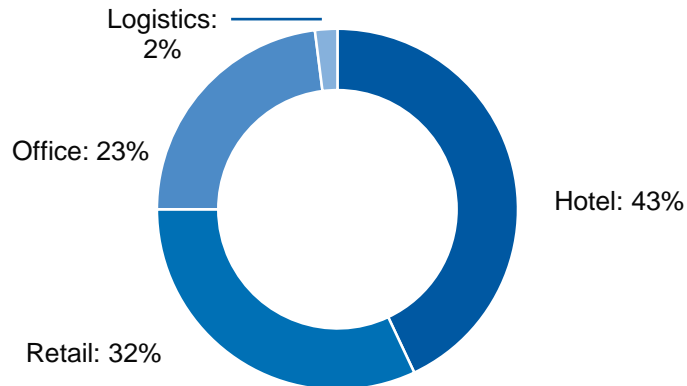
1) CRE business only, private client business (€ 1.2 bn) and WIB's public finance (€ 0.7 bn) not included

2) Performing business only, exposure as at 30.09.2016

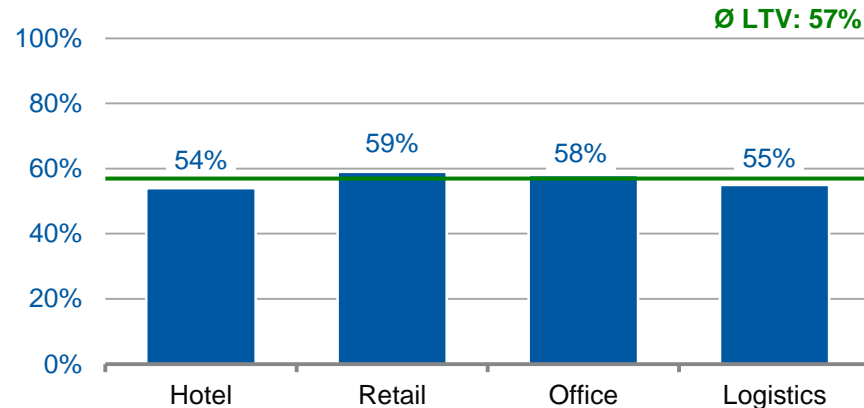
Spotlight: UK property finance portfolio

€ 3.6 bn (~13% of total portfolio)

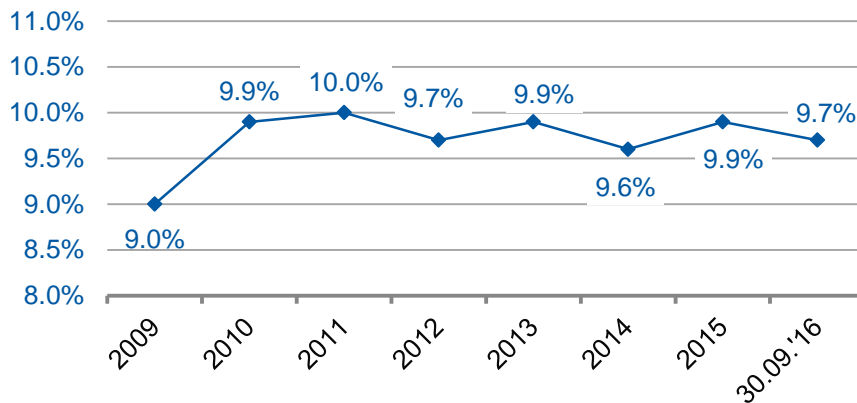
Total portfolio by property type



Average LTV by property type¹⁾



Yield on debt¹⁾



1) Performing business only

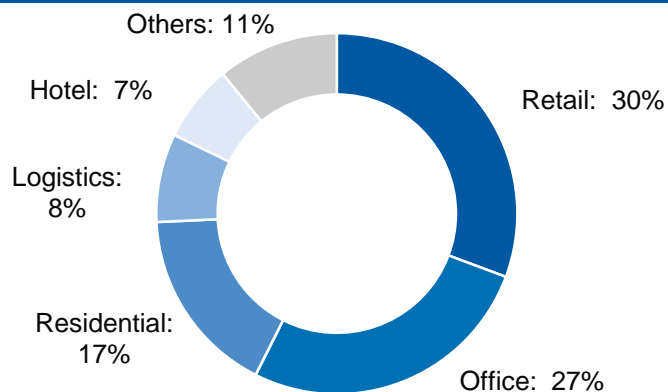
Comments

- Performing:
 - ~ 100 properties financed, no developments
 - ~ 55% of total portfolio in Greater London area, emphasising on hotels
 - € 120 mn with an LTV > 60%
 - Theoretical stress on property values (-20%): would lead to portfolio LTV of approx. 71%
- NPL: € 12 mn

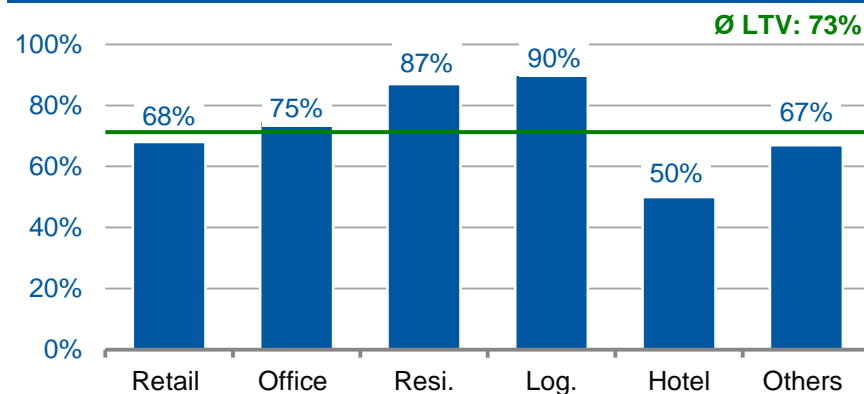
Spotlight: Italian property finance portfolio

€ 3.2 bn (~11% of total portfolio)

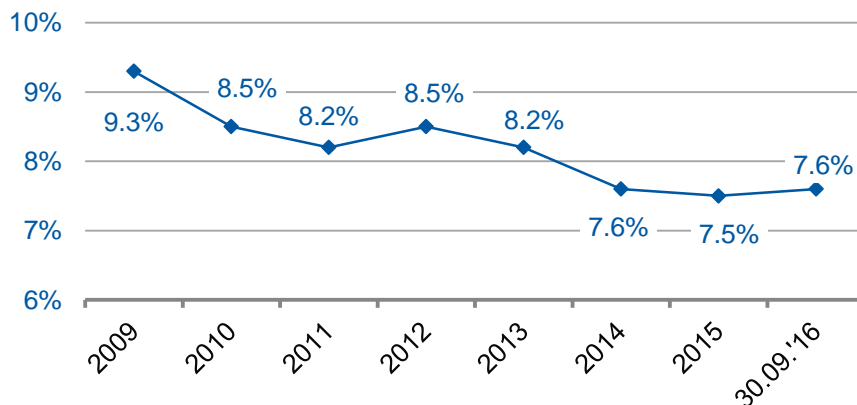
Total portfolio by property type



Average LTV by property type¹⁾



Yield on debt¹⁾



Comments

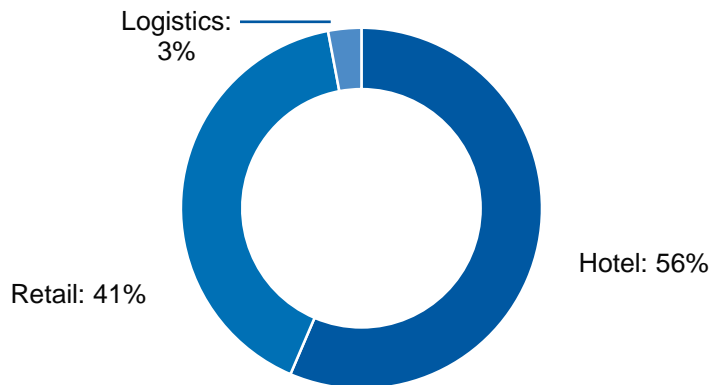
- Performing:
 - ~ 225 properties financed, < 10% developments
 - > 50% of total portfolio in Greater Rome or Milan area
 - € 437 mn with an LTV > 60%
 - Theoretical stress on property values (-20%): would lead to portfolio LTV of approx. 92%
- NPL: € 832 mn (further details on slide 32)

1) Performing business only

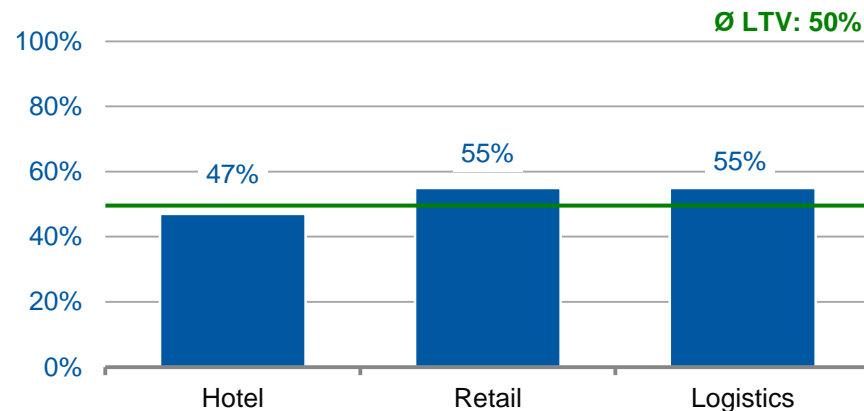
Spotlight: Turkey property finance portfolio

€ 0.6 bn (~2% of total portfolio)

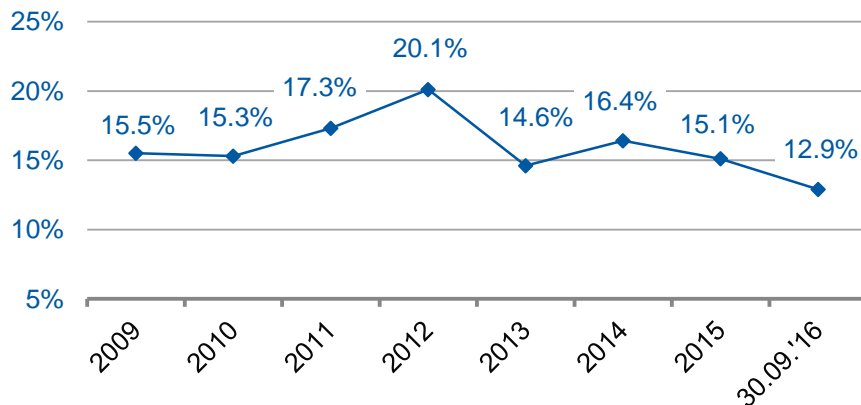
Total portfolio by property type



Average LTV by property type¹⁾



Yield on debt¹⁾



1) Performing business only

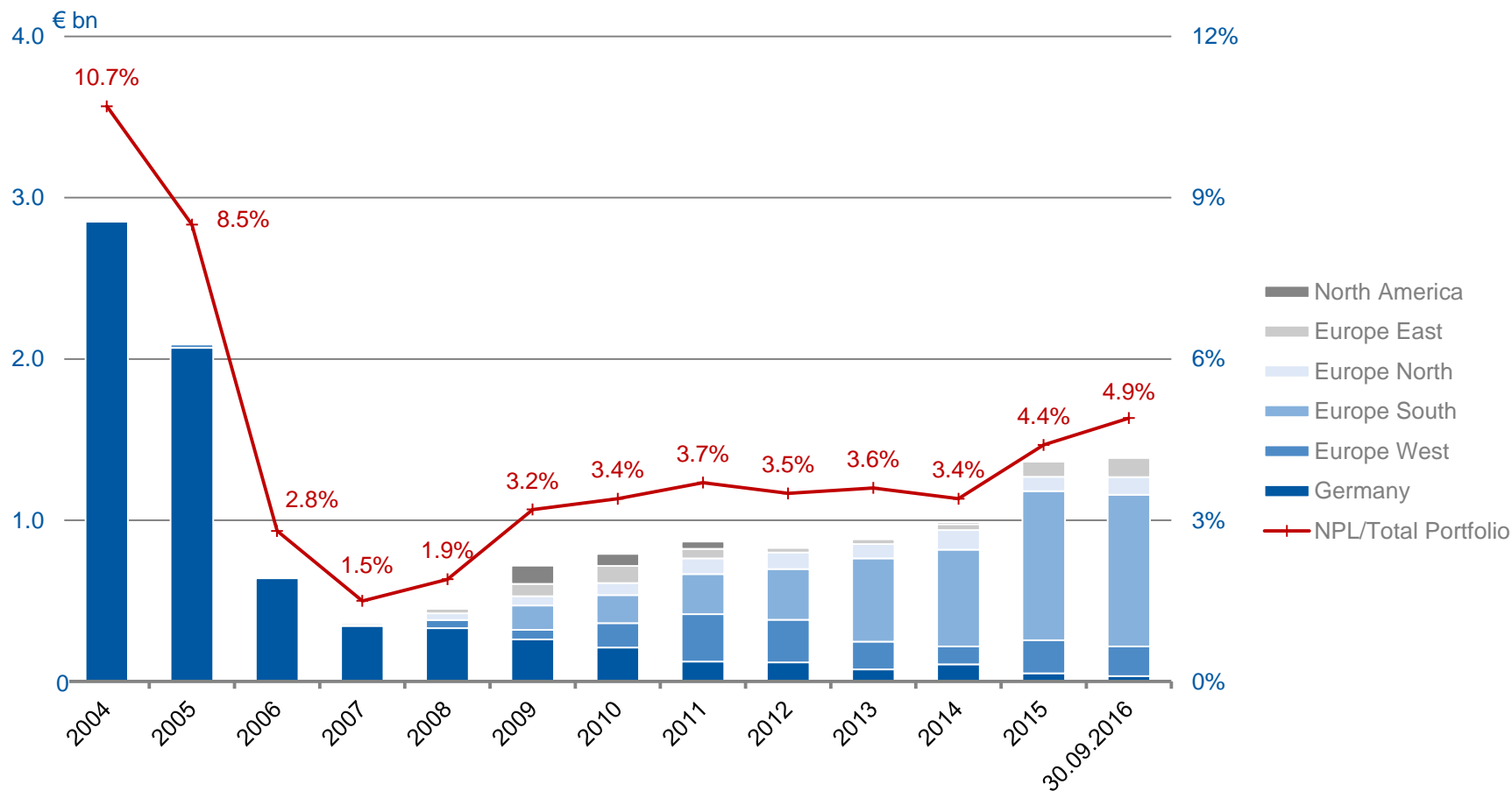
Comments

- Performing:
 - 12 properties financed: 7 hotels, 3 retail, 2 logistics, no developments
 - > 70% of total portfolio in Istanbul / Antalya
 - € 3 mn with an LTV > 60%
 - Theoretical stress on property values (-20%): would lead to portfolio LTV of approx. 63%
- NPL: € 93 mn, 2 deals (hotel, retail)

Property finance portfolio

Stable NPLs over lower portfolio

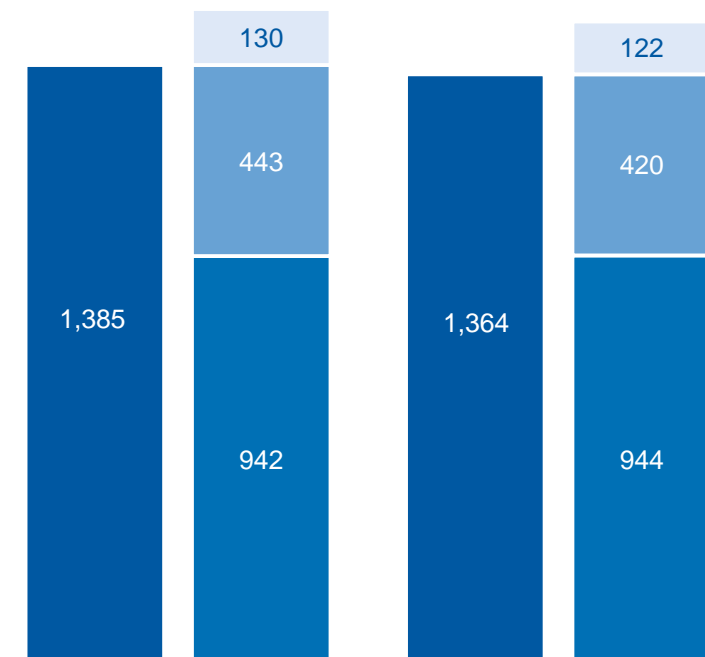
NPL and NPL-ratio (since 12.2004)



Property finance portfolio

NPL exposure fully covered including collaterals

NPL- and LLP development (€ mn)



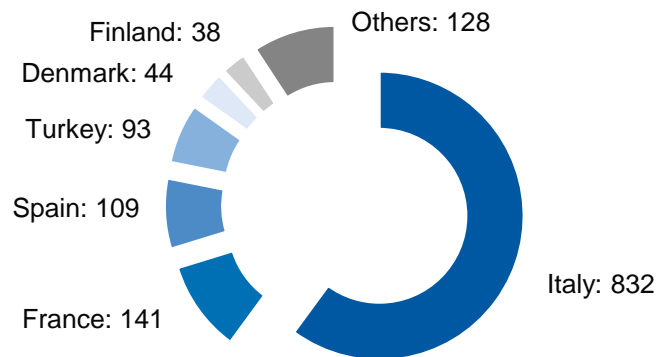
	30.09.2016	31.12.2015
Coverage ratio specific allowance	32%	31%
Coverage ratio including portfolio allowance	41%	40%

- NPL exposure
- Portfolio allowance
- Specific allowance
- Collaterals

Spotlight Italy

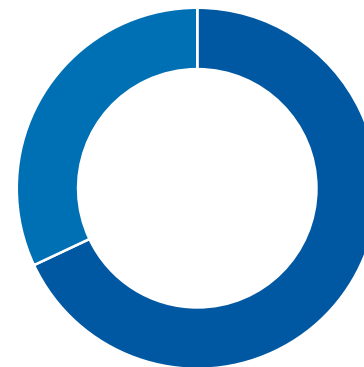
Italian NPL: clear going forward strategy

Total NPL portfolio: € 1,385 mn



Italian NPL by status

Enforcement:
32%



Restructured /
agreement in place
or planned:
68%

Italian NPL

- Restructuring period: vast majority to be solved till 2020
- Current enforcement period 3-4 years, but improving due to new legislation

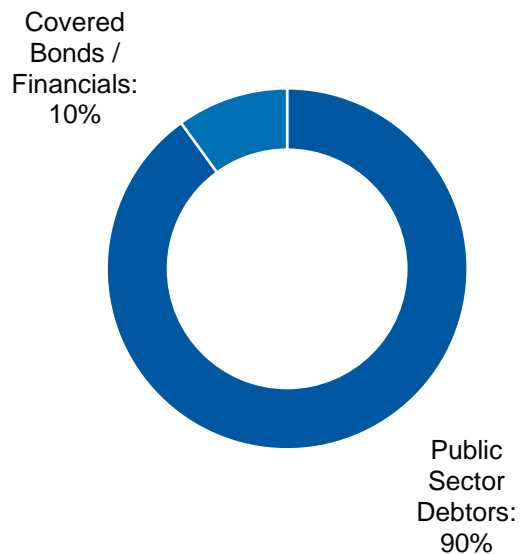


All Italian NPL are fully covered despite being in different workout-stages

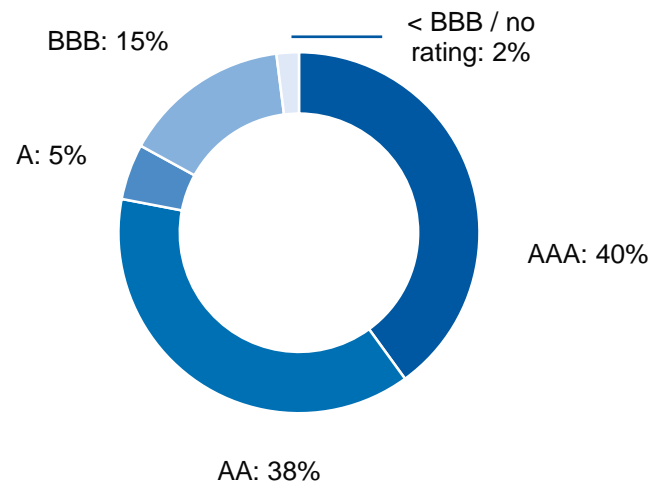
Treasury portfolio

€ 9.3 bn of high quality and highly liquid assets

by asset class



by rating¹⁾



As at 30.09.2016 – all figures are nominal amounts

1) Composite Rating



Outlook 2016

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Outlook 2016 raised

2016	
Net interest income	<ul style="list-style-type: none"> € 700 mn - € 740 mn incl. effects from early repayments (Original plan 2016: € 35 mn / FY 2015: € 75 mn)
Allow. for credit losses ¹⁾	<ul style="list-style-type: none"> € 80 mn - € 120 mn
Net commission income	<ul style="list-style-type: none"> € 190 mn - € 200 mn
Admin expenses	<ul style="list-style-type: none"> € 520 mn - € 550 mn (incl. expenses for integration / projects and investments)
Operating profit	<ul style="list-style-type: none"> € 360 mn - € 380 mn (from € 300 mn - € 330 mn) → Considering € 28 mn gain from resolution of litigations incurred in connection with acquisition of former Corealcredit
Pre-tax RoE	<ul style="list-style-type: none"> ~13% (from ~11%) → ~12% adjusted by € 28 mn gain from resolution of litigations incurred in connection with acquisition of former Corealcredit
EpS ²⁾	<ul style="list-style-type: none"> € 3.20 - € 3.43 (from € 2.85 - € 3.19) → Considering € 28 mn gain from resolution of litigations incurred in connection with acquisition of ex Corealcredit and corresponding tax losses of € 27 mn
Target portfolio size (ARL core portfolio)	<ul style="list-style-type: none"> € 25 bn - € 27 bn
New business origination	<ul style="list-style-type: none"> € 8 bn - € 9 bn (from € 7 bn - € 8 bn)
Operating profit Aareon ³⁾	<ul style="list-style-type: none"> € 33 mn - € 35 mn

1) As in 2015, the bank cannot rule out additional allowances for credit losses

2) Earnings per ordinary share, tax rate of ~37% assumed (~31% adjusted by effects from solving / settlement of litigations incurred in connection with acquisition of ex Corealcredit **and** corresponding tax losses)

3) After segment adjustments

Conclusion

Ongoing positive development

Key takeaways at a glance



Aareal Bank Group operating business remains on successful course



- FY-operating profit target raised to € 360 mn - € 380 mn, including expected positive one-off effect (€ 28 mn) in Q4 2016



Implementation of “Aareal 2020” on track



Appendix
Aareal 2020

Strategic background

Assumptions

General environment



Tougher competition and changing clients' needs



Volatile markets (interest rates / exchange rates, oil)



Increasingly stringent regulation, historically low interest rate environment



Technological change and digitalisation



Geopolitical risks

As published February 25, 2016

Basic planning assumption: high volatility, low growth

Regulation



- Basel IV effects in line with our expectations
- Increasing regulation does not lead to additional (material) burdens

Property markets



- Property values: stable (EU), slightly increasing (US)
- Ongoing liquidity driven property markets, therefore increasingly inherent portfolio risks (esp. in Europe)

Macro-economic environment

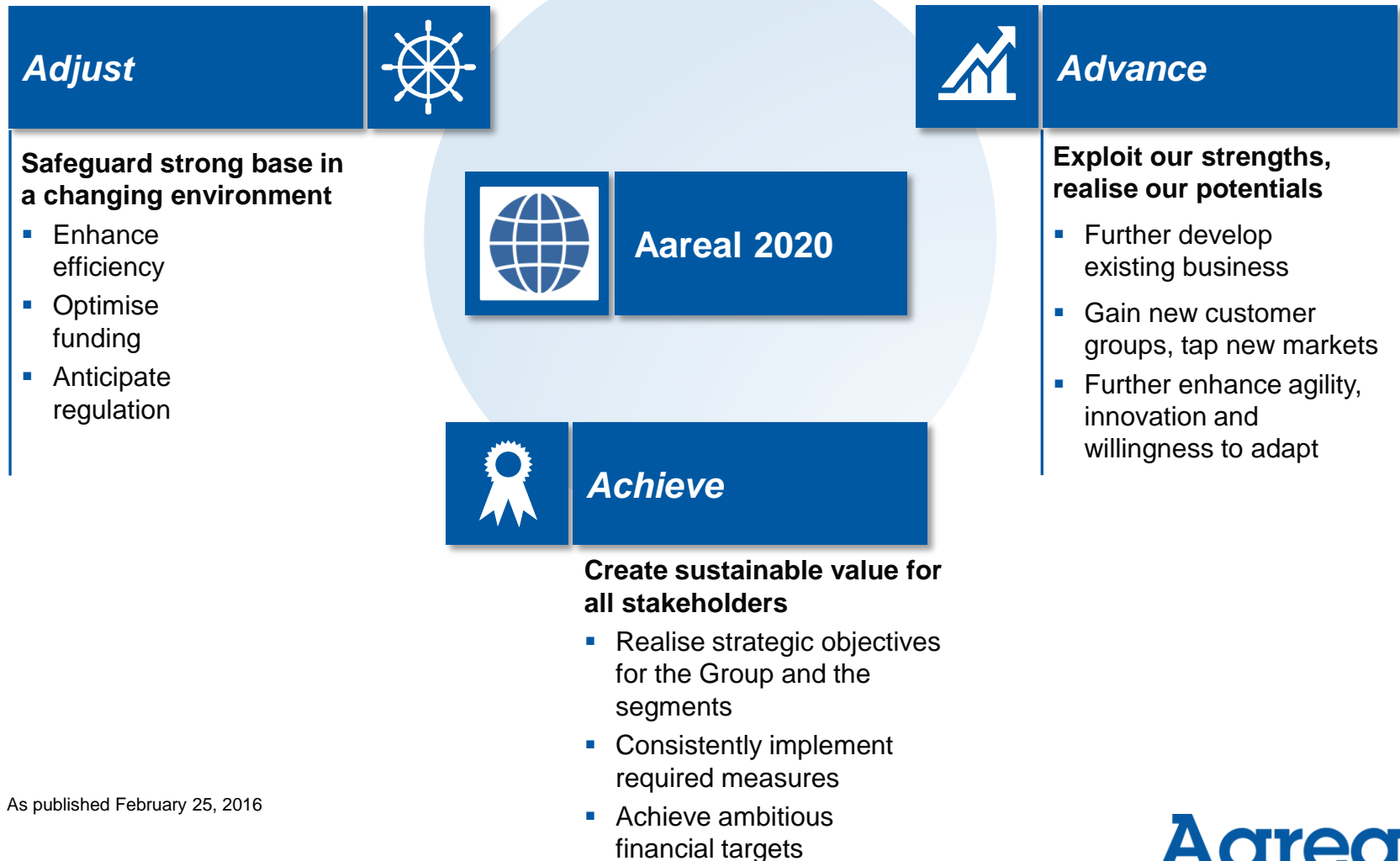


- Economic development:
 - Euro zone sideways
 - US and some EU countries more dynamic
- Interest rates:
 - Euro zone: moderate increase starting '17
 - US: continued increase this year
- No euro zone break-up, no "Brexit", no strengthening of nationalistic tendencies in Europe
- No adverse development of geopolitical conflicts

ASSUMPTIONS APPLY TO
FOLLOWING PAGES

Aareal 2020 – *Adjust. Advance. Achieve.*

Our way ahead



As published February 25, 2016



Adjust.

Maintain strategy, optimise set-up

Enhance efficiency

Considerably reduce admin expenses, digitise processes, optimise IT-architecture

Reduce admin expenses to ~ € 450 mn by 2018



Optimise funding

Further reduction of capital market-funding by increasing deposit base

Housing industry deposits to be increased to € 10 bn by 2018



Anticipate regulation

Aareal Bank well-prepared for expected scenarios, has identified counter measures to sustainably safeguard its business model

CET1 ratio 10.75% (plus 2.25% management buffer¹⁾), T1-leverage ratio 4-5%



As published February 25, 2016

1) Management buffer of 2.25% planned until regulatory environment is sufficiently stable



Advance: Structured Property Financing. Safeguard core business in adverse environment

**Further develop
existing business**

**Gain new
customer groups,
tap new markets**

- In the medium term, expansion in markets with an attractive risk / return and macroeconomic growth potential, e.g. grow North America portfolio to € 6.0 bn - € 6.5 bn
- Active portfolio- and balance-sheet management e.g. by syndication
- Use digitisation potential with clients, identify and realise new digital business opportunities
- Examine additional business opportunities along the value chain of commercial property financing, e.g. in the area of servicing

Further enhance agility, innovation and willingness to adapt

As published February 25, 2016



Advance: Consulting / Services.

Leverage position as leading provider of ERP solutions in Europe to achieve future growth

Further develop existing business

Gain new customer groups, tap new markets

- Expanding “ecosystem housing industry”: international cross-selling, develop add-on products for ERP systems and new digital products
- Utilise existing know-how to expand “ecosystem utilities” by offering specific products (e.g. for transaction services) and IT services / consulting
- Further development of existing platform products for the management of housing companies for their B2C business
- Push our payment transaction services and IT products, targeting small-sized housing enterprises and COA-Manager

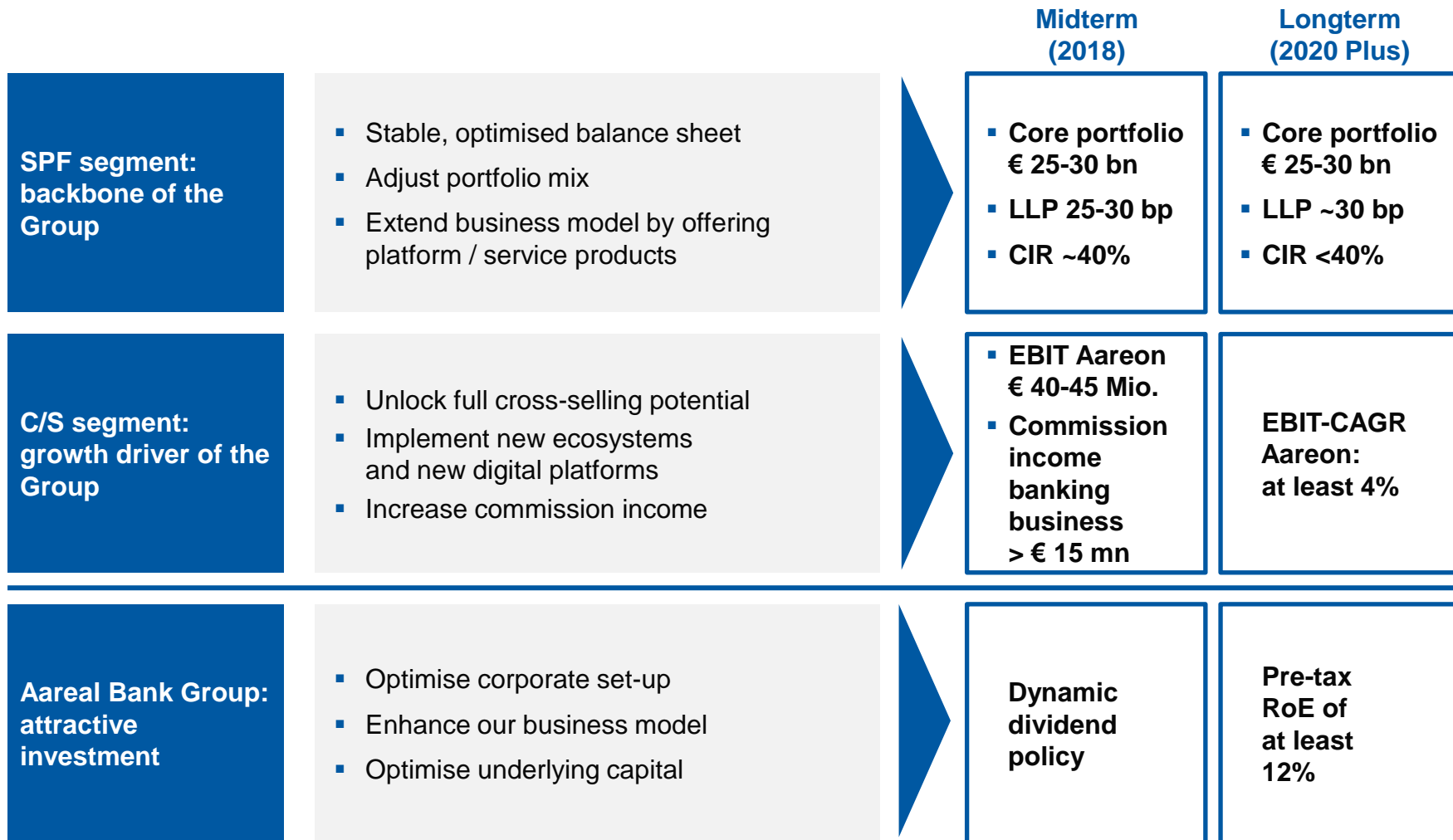
Further enhance agility, innovation and willingness to adapt

As published February 25, 2016



Achieve.

What we are targeting



As published February 25, 2016

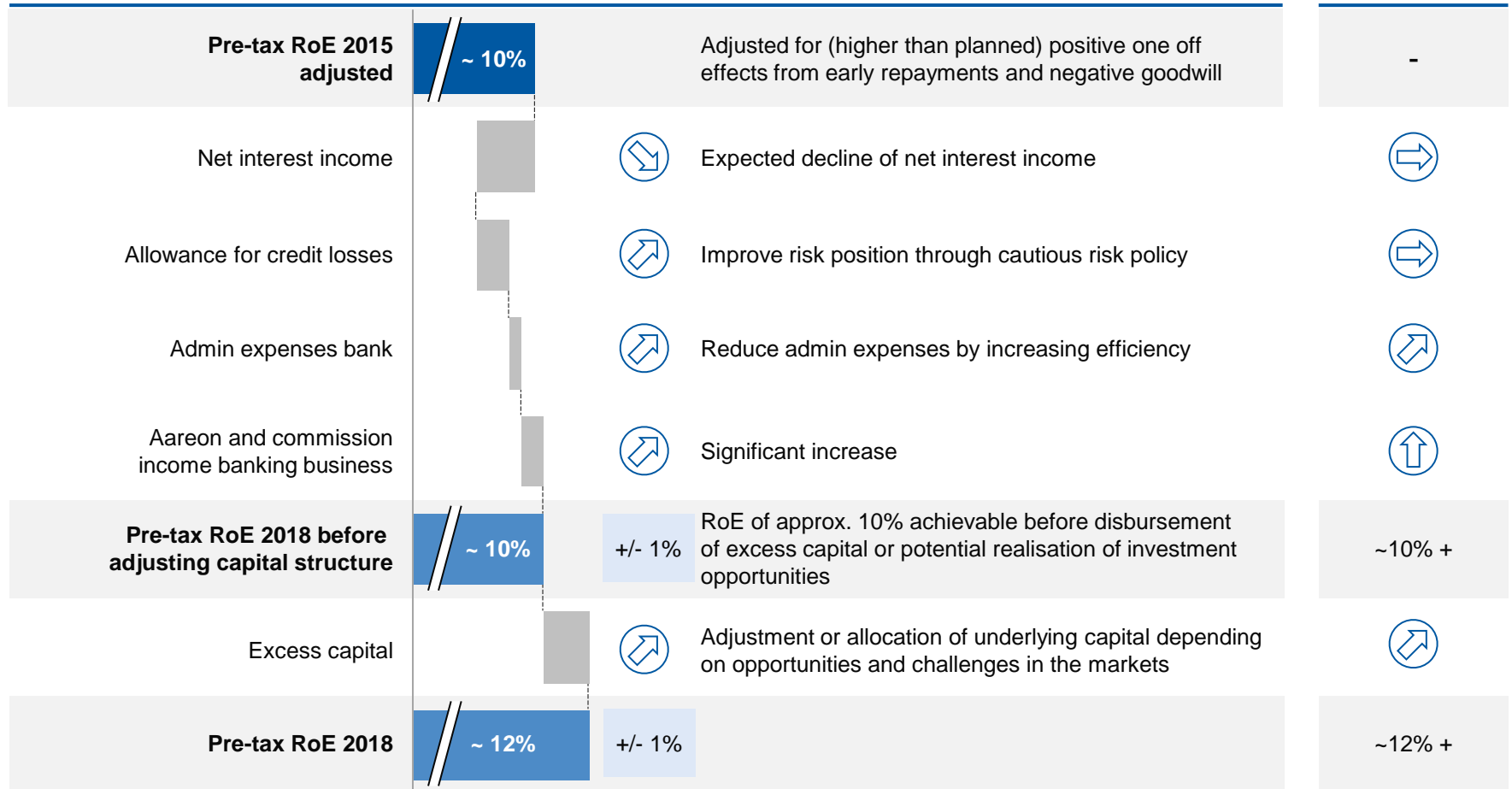


Achieve.

Keep RoE on an attractive level despite difficult environment

RoE-Development 2015 - 18

2020 Plus



As published February 25, 2016

Further medium-term increase is possible on the basis of a positive development of interest rate levels



Achieve.

Increase payout ratio (up to 80%) and dividend¹⁾

Base dividend

We intend to distribute **approx. 50% of the earnings per ordinary share (EpS)** as base dividend

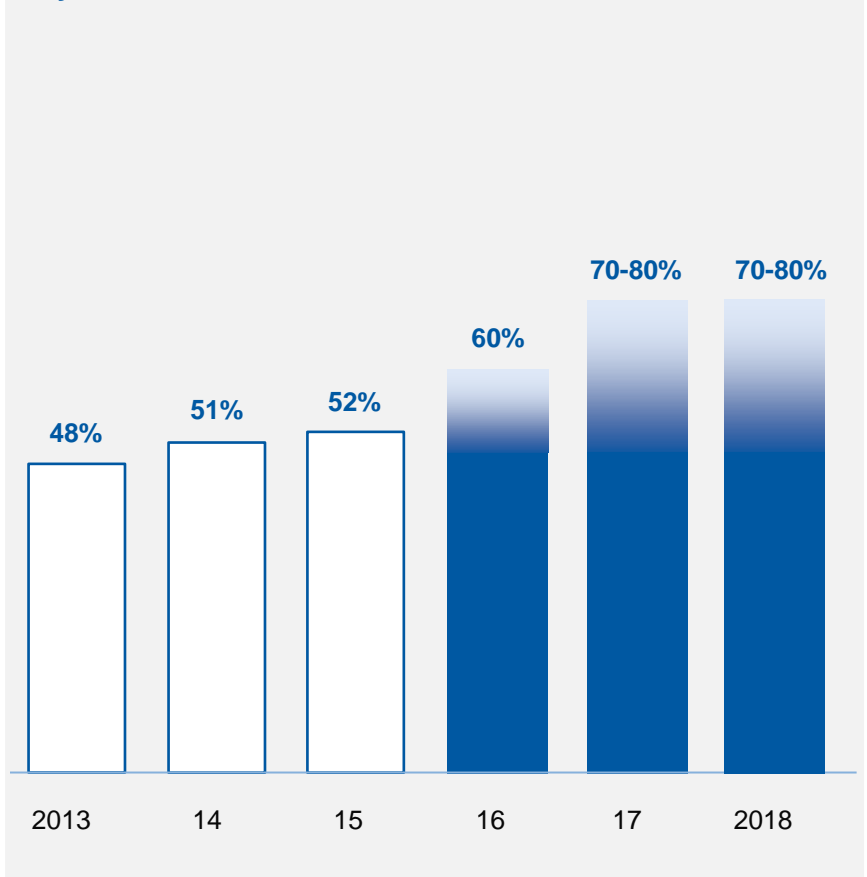
Supplementary dividend

In addition, we plan to distribute **supplementary dividends, from 10% increasing up to 20-30% of the EpS**

Prerequisites:

- No material deterioration of the environment (with longer-term and sustainably negative effects)
- Nor attractive investment opportunities neither positive growth environment

Payout ratio 2013 - 2018



As published February 25, 2016

1) The future dividend policy applies provided that the dividend payments resulting from it are consistent with a long-term and sustained business development of Aareal Bank AG. In addition, the dividend payments are subject to the proviso that corresponding dividend proposals have been made by the Management Board and the Supervisory Board for the respective year.



Appendix

Group results

Aareal Bank Group

Results Q3 2016

	01.07.- 30.09.2016 € mn	01.07.- 30.09.2015 € mn	Change
Profit and loss account			
Net interest income	175	214	-18%
Allowance for credit losses	33	37	-11%
Net interest income after allowance for credit losses	142	177	-20%
Net commission income	44	40	10%
Net result on hedge accounting	3	-3	
Net trading income / expenses	4	13	-69%
Results from non-trading assets	5	-13	
Results from investments accounted for at equity	0	0	
Administrative expenses	127	147	-14%
Net other operating income / expenses	3	15	-80%
Negative goodwill	-	-	
Operating Profit	74	82	-10%
Income taxes	23	26	-12%
Consolidated net income	51	56	-9%
Consolidated net income attributable to non-controlling interests	5	5	0%
Consolidated net income attributable to shareholders of Aareal Bank AG	46	51	-10%
Earnings per share (EpS)			
Consolidated net income attributable to shareholders of Aareal Bank AG ¹⁾	46	51	-10%
of which: allocated to ordinary shareholders	42	47	-10%
of which: allocated to AT1 investors	4	4	0%
Earnings per ordinary share (in €) ²⁾	0.70	0.78	-10%
Earnings per ordinary AT1 unit (in €) ³⁾	0.04	0.04	0%

1) The allocation of earnings is based on the assumption that net interest payable on the AT1 bond is recognised on an accrual basis.

2) Earnings per ordinary share are determined by dividing the earnings allocated to ordinary shareholders of Aareal Bank AG by the weighted average of ordinary shares outstanding during the financial year (59,857,221 shares). Basic earnings per ordinary share correspond to diluted earnings per ordinary share.

3) Earnings per AT1 unit (based on 100,000,000 AT1 units with a notional amount of 3 € each) are determined by dividing the earnings allocated to AT1 investors by the weighted average of AT1 units outstanding during the financial year. Earnings per AT1 unit (basic) correspond to (diluted) earnings per AT1 unit.

Aareal Bank Group

Results Q3 2016 by segments

	Structured Property Financing		Consulting / Services		Consolidation/ Reconciliation		Aareal Bank Group	
	01.07.- 30.09. 2016	01.07.- 30.09. 2015	01.07.- 30.09. 2016	01.07.- 30.09. 2015	01.07.- 30.09. 2016	01.07.- 30.09. 2015	01.07.- 30.09. 2016	01.07.- 30.09. 2015
€ mn								
Net interest income	179	214	0	0	-4	0	175	214
Allowance for credit losses	33	37					33	37
Net interest income after allowance for credit losses	146	177	0	0	-4	-1	142	177
Net commission income	2	2	39	39	3	0	44	40
Net result on hedge accounting	3	-3					3	-3
Net trading income / expenses	4	13					4	13
Results from non-trading assets	5	-13					5	-13
Results from investments accounted for at equity	0		0	0			0	0
Administrative expenses	77	101	51	47	-1	-1	127	147
Net other operating income / expenses	2	14	1	1	0	0	3	15
Negative goodwill								
Operating profit	85	89	-11	-7	0	0	74	82
Income taxes	27	29	-4	-3			23	26
Consolidated net income	58	60	-7	-4	0	0	51	56
Allocation of results								
Cons. net income attributable to non-controlling interests	5	5	0	0			5	5
Cons. net income attributable to shareholders of Aareal Bank AG	53	55	-7	-4	0	0	46	51

Aareal Bank Group

Results 9M 2016

	01.01.- 30.09.2016 € mn	01.01.- 30.09.2015 € mn	Change
Profit and loss account			
Net interest income	532	583	-9%
Allowance for credit losses	64	86	-26%
Net interest income after allowance for credit losses	468	497	-6%
Net commission income	137	123	11%
Net result on hedge accounting	4	5	-20%
Net trading income / expenses	21	8	163%
Results from non-trading assets	66	-15	
Results from investments accounted for at equity	0	0	
Administrative expenses	417	415	0%
Net other operating income / expenses	2	25	-92%
Negative goodwill	-	150 ¹⁾	
Operating Profit	281	378¹⁾	-26%
Income taxes	88	72	22%
Consolidated net income	193	306¹⁾	-37%
Consolidated net income attributable to non-controlling interests	15	15	0%
Consolidated net income attributable to shareholders of Aareal Bank AG	178	291 ¹⁾	-39%
Earnings per share (EpS)			
Consolidated net income attributable to shareholders of Aareal Bank AG ²⁾	178	291 ¹⁾	-39%
of which: allocated to ordinary shareholders	166	279 ¹⁾	-40%
of which: allocated to AT1 investors	12	12	0%
Earnings per ordinary share (in €) ³⁾	2.78	4,65 ¹⁾	-40%
Earnings per ordinary AT1 unit (in €) ⁴⁾	0.12	0.12	0%

1) Adjustment of previous year's figures due to completion of purchase price allocation for WestImmo, in accordance with IFRS 3

2) The allocation of earnings is based on the assumption that net interest payable on the AT1 bond is recognised on an accrual basis.

3) Earnings per ordinary share are determined by dividing the earnings allocated to ordinary shareholders of Aareal Bank AG by the weighted average of ordinary shares outstanding during the financial year (59,857,221 shares). Basic earnings per ordinary share correspond to diluted earnings per ordinary share.

4) Earnings per AT1 unit (based on 100,000,000 AT1 units with a notional amount of 3 € each) are determined by dividing the earnings allocated to AT1 investors by the weighted average of AT1 units outstanding during the financial year. Earnings per AT1 unit (basic) correspond to (diluted) earnings per AT1 unit.

Aareal Bank Group

Results 9M 2016 by segments

	Structured Property Financing		Consulting / Services		Consolidation/ Reconciliation		Aareal Bank Group	
	01.01.- 30.09. 2016	01.01.- 30.09. 2015	01.01.- 30.09. 2016	01.01.- 30.09. 2015	01.01.- 30.09. 2016	01.01.- 30.09. 2015	01.01.- 30.09. 2016	01.01.- 30.09. 2015
€ mn								
Net interest income	542	584	0	0	-10	-1	532	583
Allowance for credit losses	64	86					64	86
Net interest income after allowance for credit losses	478	498	0	0	-10	-1	468	497
Net commission income	5	4	124	120	8	-1	137	123
Net result on hedge accounting	4	5					4	5
Net trading income / expenses	21	8	0				21	8
Results from non-trading assets	66	-15					66	-15
Results from investments accounted for at equity		0	0	0			0	0
Administrative expenses	266	274	153	143	-2	-2	417	415
Net other operating income / expenses	1	23	1	2	0	0	2	25
Negative goodwill		150 ¹⁾						150 ¹⁾
Operating profit	309	399¹⁾	-28	-21	0	0	281	378¹⁾
Income taxes	98	79	-10	-7			88	72
Consolidated net income	211	320¹⁾	-18	-14	0	0	193	306¹⁾
Allocation of results								
Cons. net income attributable to non-controlling interests	13	13	2	2			15	15
Cons. net income attributable to shareholders of Aareal Bank AG	198	307 ¹⁾	-20	-16	0	0	178	291 ¹⁾

1) Adjustment of previous year's figures due to completion of purchase price allocation for WestImmo, in accordance with IFRS 3

Aareal Bank Group

Results – quarter by quarter

	Structured Property Financing					Consulting / Services					Consolidation / Reconciliation					Aareal Bank Group				
	Q3 2016	Q2 2016	Q1 2016	Q4 2015	Q3 2015	Q3 2016	Q2 2016	Q1 2016	Q4 2015	Q3 2015	Q3 2016	Q2 2016	Q1 2016	Q4 2015	Q3 2015	Q3 2016	Q2 2016	Q1 2016	Q4 2015	Q3 2015
€ mn																				
Net interest income	179	181	182	199	214	0	0	0	0	0	-4	-4	-2	-1	0	175	177	180	198	214
Allowance for credit losses	33	29	2	42	37											33	29	2	42	37
Net interest income after allowance for credit losses	146	152	180	157	177	0	0	0	0	0	-4	-4	-2	-1	0	142	148	178	156	177
Net commission income	2	1	2	2	2	39	43	42	49	39	3	3	2	1	-1	44	47	46	52	40
Net result on hedge accounting	3	0	1	3	-3											3	0	1	3	-3
Net trading income / expenses	4	8	9	5	13		0	0	0							4	8	9	5	13
Results from non-trading assets	5	61	0	-2	-13											5	61	0	-2	-13
Results from results accounted for at equity					0	0	0	0	0	0						0	0	0	0	0
Administrative expenses	77	94	95	85	101	51	51	51	54	47	-1	-1	0	-1	-1	127	144	146	138	147
Net other operating income / expenses	2	0	-1	14	14	1	0	0	3	1	0	0	0	-1	0	3	0	-1	16	15
Negative goodwill																				
Operating profit	85	128	96	94	89	-11	-8	-9	-2	-7	0	0	0	0	0	74	120	87	92	82
Income taxes	27	41	30	27	29	-4	-3	-3	-3	-3						23	38	27	24	26
Consolidated net income	58	87	66	67	60	-7	-5	-6	1	-4	0	0	0	0	0	51	82	60	68	56
Cons. net income attributable to non-controlling interests	5	4	4	3	5	0	1	1	1	0						5	5	5	4	5
Cons. net income attributable to shareholders of Aareal Bank AG	53	83	62	64	55	-7	-6	-7	0	-4	0	0	0	0	0	46	77	55	64	51

Material litigations concerning the former Corealcredit concluded: Successful conclusion with no material EPS impact as expected

Impact on P/L			
€ mn			
Reversal of provisions for litigation and considering compensation claims	28		
Total operating profit		28	
Reversal of deferred tax assets and provisions	-27		
Total income taxes		-27	
Total net income			1

- To comprehensively cover risks from ongoing litigations, assumed within the framework of acquiring the former Corealcredit (SPA), provisions were recognised on the date of acquisition. Moreover, the Bank contractually agreed upon mutual compensation claims with the former owner of Corealcredit, depending upon the outcome of the litigations.
- Given the conclusion of the litigations, the Bank will be able to reverse these provisions during the fourth quarter. The reversal of provisions will partially be offset by considering contractually-agreed compensation claims.
- The resulting net income of €28 million will be offset by the reversal of deferred tax assets and provisions recognised in connection with the former Corealcredit (in the amount of €27 million); as expected. Overall, this issue will have only a minor impact on results after taxes (around €1 million).
- Specifically, negative goodwill of €154 million recognised upon acquisition will remain unaffected.



Appendix
AT1: ADI of Aareal Bank AG

Interest payments and ADI of Aareal Bank AG

Available Distributable Items (as of end of the relevant year)

	31.12. 2015	31.12. 2014	31.12. 2013
€ mn			
Net Retained Profit	99	77	50
▪ <i>Net income</i>	99	77	50
▪ <i>Profit carried forward from previous year</i>	-	-	-
▪ <i>Net income attribution to revenue reserves</i>	-	-	-
+ Other revenue reserves after net income attribution	720	715	710
= Total dividend potential before amount blocked ¹⁾	819	792	760
./. Dividend amount blocked under section 268 (8) of the German Commercial Code	287	240	156
= Available Distributable Items ¹⁾	532	552	604
+ Increase by aggregated amount of interest expenses relating to Distributions on Tier 1 Instruments ¹⁾	46	57	57
= Amount referred to in the relevant paragraphs of the terms and conditions of the respective Notes as being available to cover Interest Payments on the Notes and Distributions on other Tier 1 Instruments ¹⁾	578	609	661

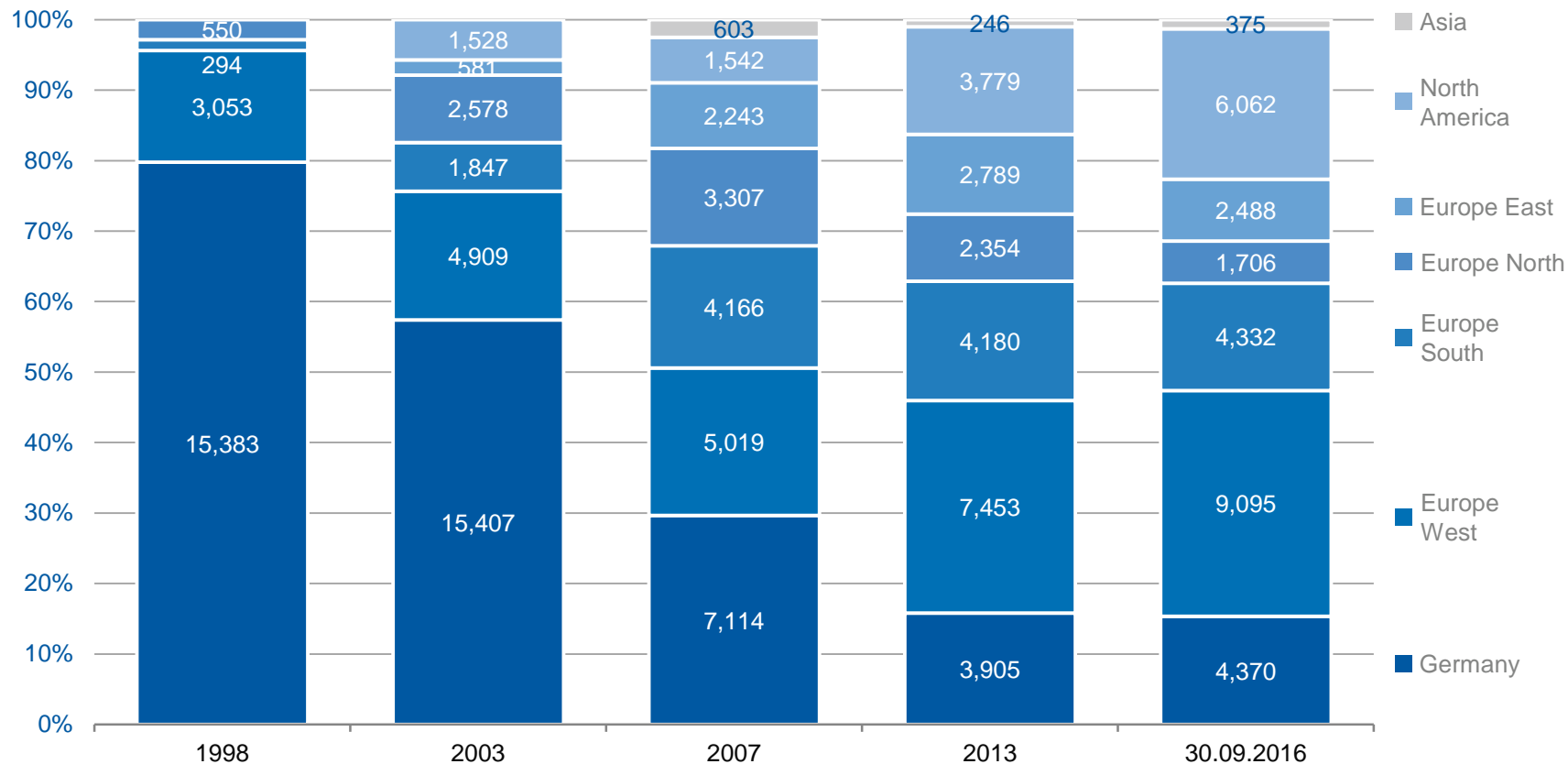
1) Unaudited figures for information purposes only



Appendix
Development property finance portfolio

Development property finance portfolio

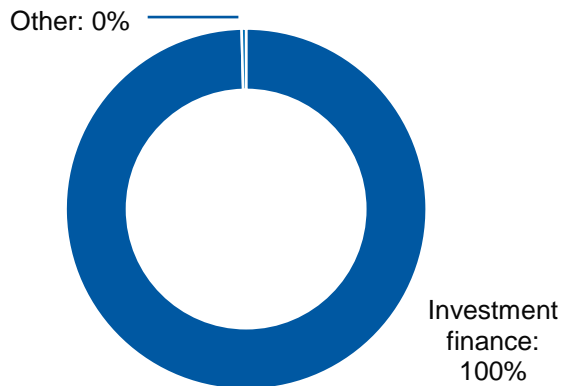
Diversification continuously strengthened (in € mn)



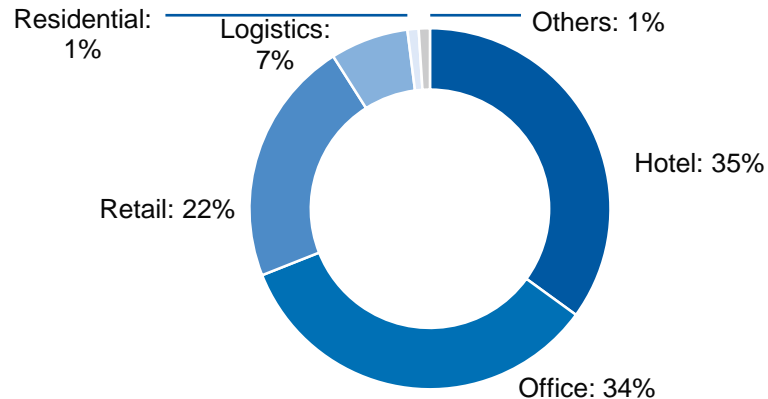
Western Europe (ex Germany) credit portfolio

Total volume outstanding as at 30.09.2016: € 9.1 bn

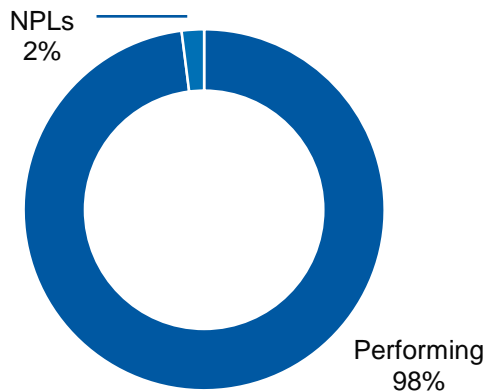
by product type



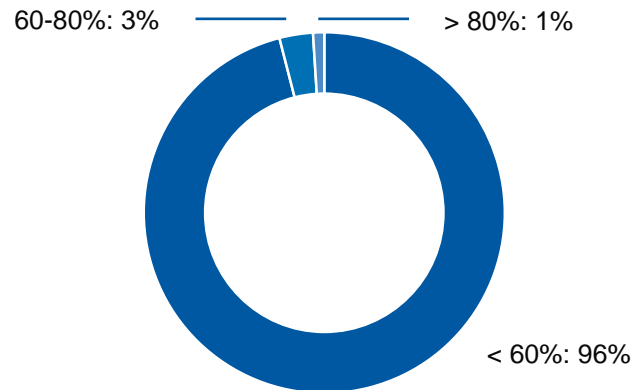
by property type



by performance



by LTV ranges¹⁾

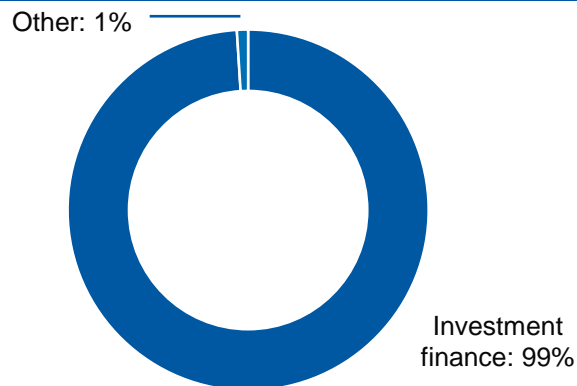


1) Performing business only, exposure as at 30.09.2016

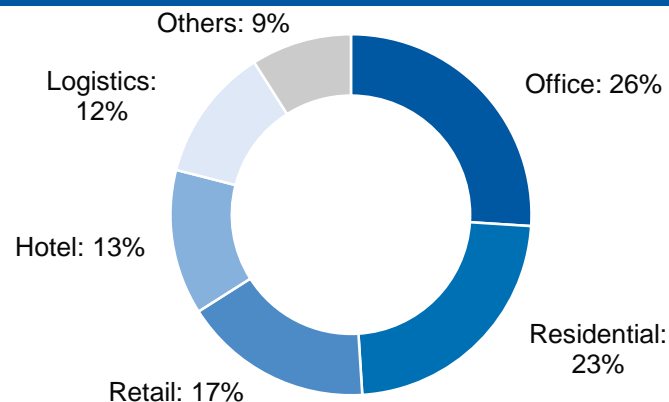
German credit portfolio

Total volume outstanding as at 30.09.2016: € 4.4 bn

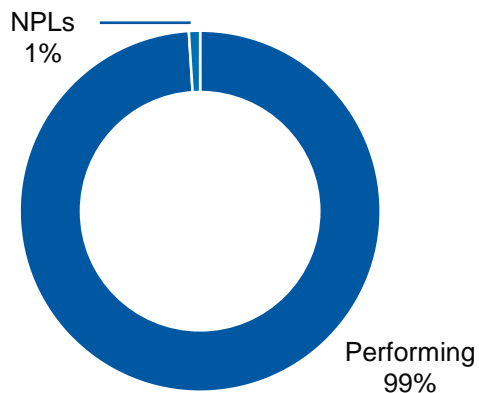
by product type



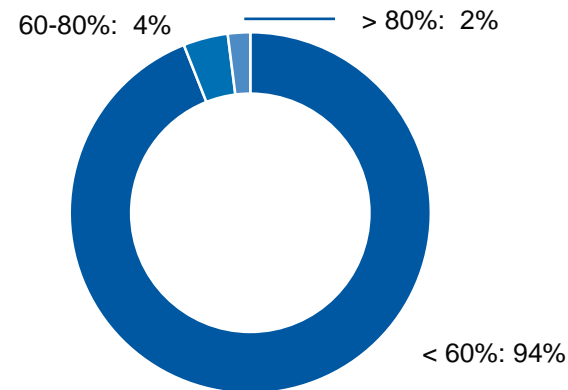
by property type



by performance



by LTV ranges¹⁾

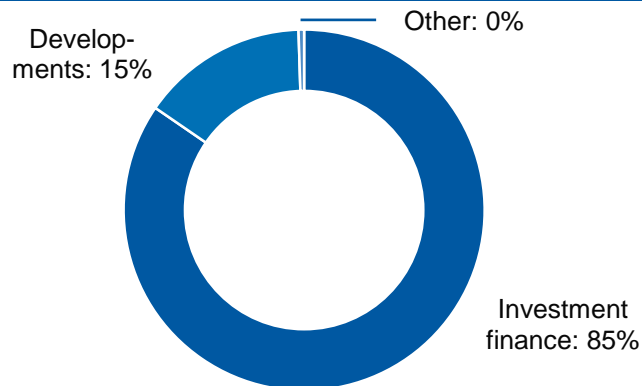


1) Performing business only, exposure as at 30.09.2016

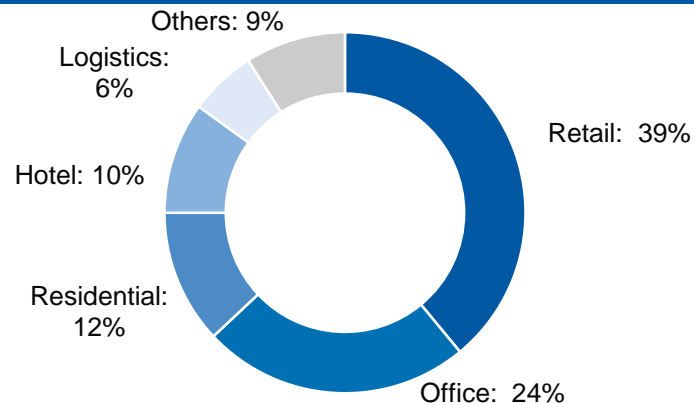
Southern Europe credit portfolio

Total volume outstanding as at 30.09.2016: € 4.3 bn

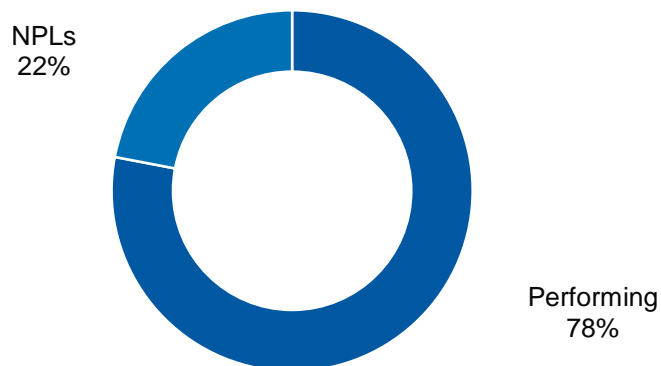
by product type



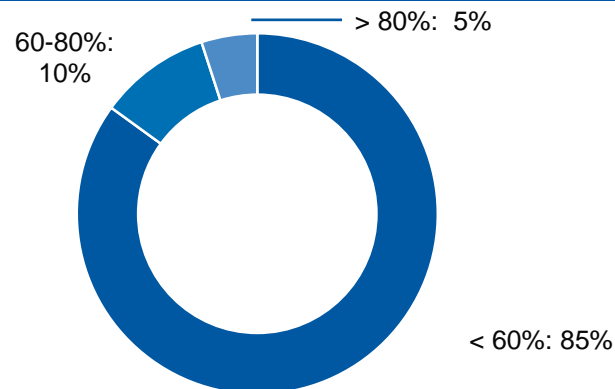
by property type



by performance



by LTV ranges¹⁾

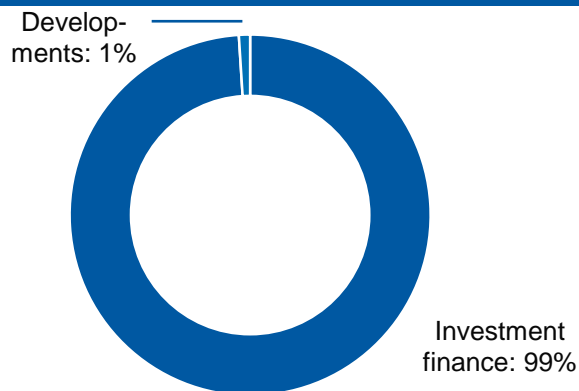


1) Performing business only, exposure as at 30.09.2016

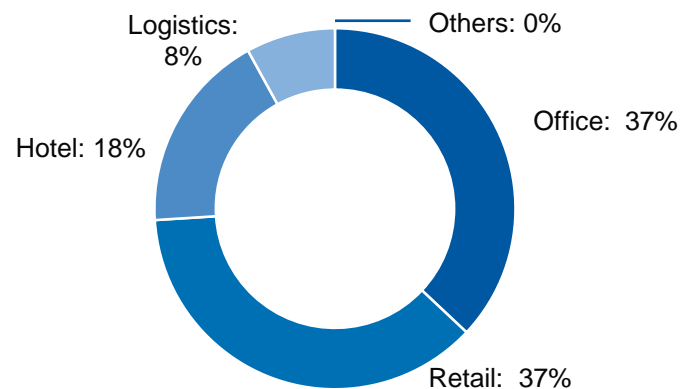
Eastern Europe credit portfolio

Total volume outstanding as at 30.09.2016: € 2.5 bn

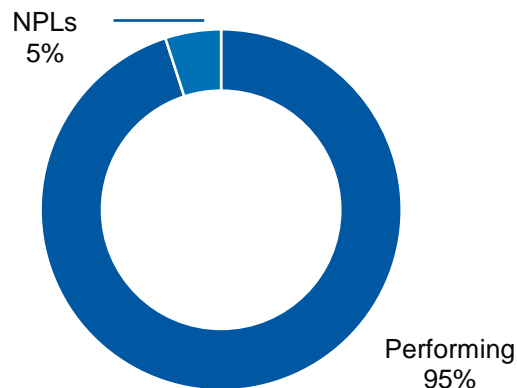
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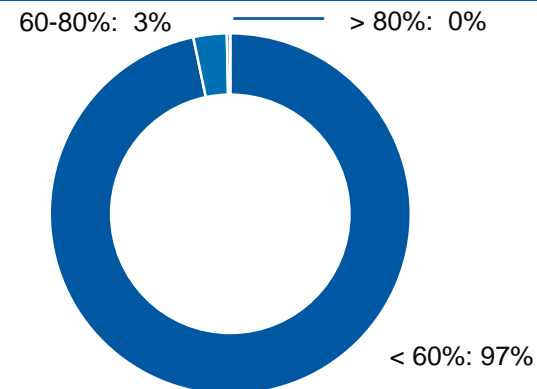
by property type



by performance



by LTV ranges¹⁾

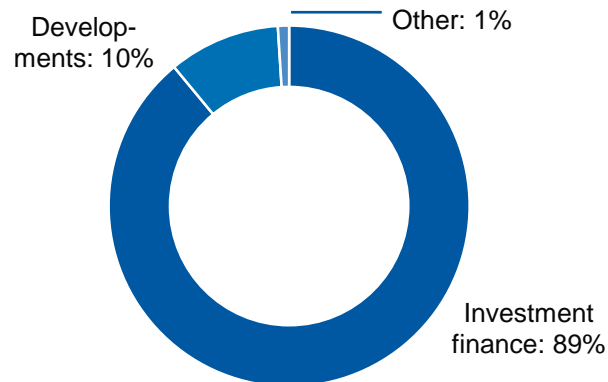


1) Performing business only, exposure as at 30.09.2016

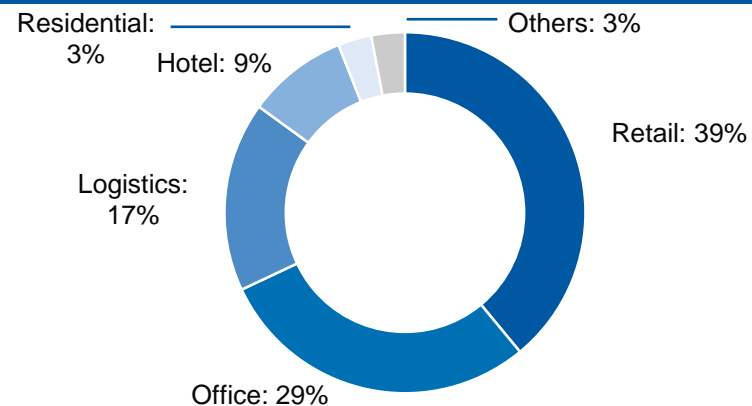
Northern Europe credit portfolio

Total volume outstanding as at 30.09.2016: € 1.7 bn

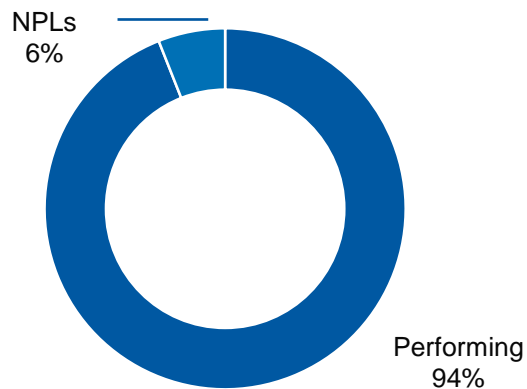
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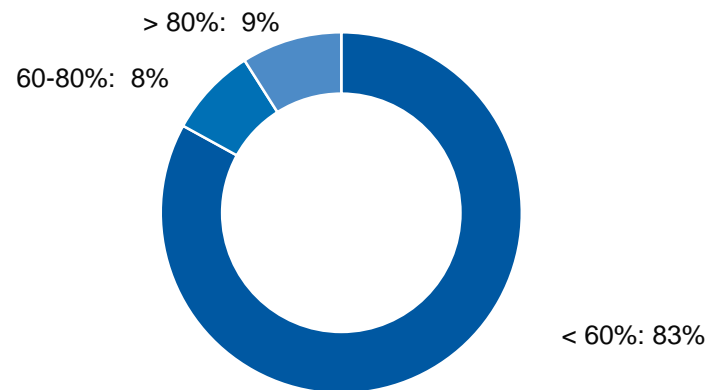
by property type



by performance



by LTV ranges¹⁾

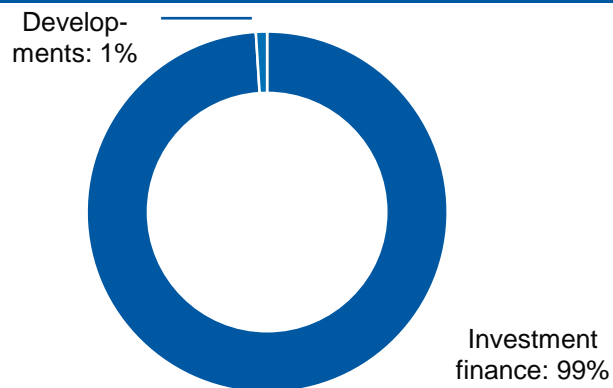


1) Performing business only, exposure as at 30.07.2016

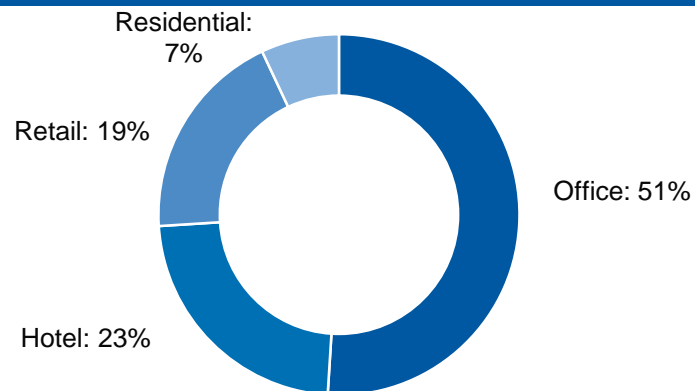
North America credit portfolio

Total volume outstanding as at 30.09.2016: € 6.1 bn

by product type



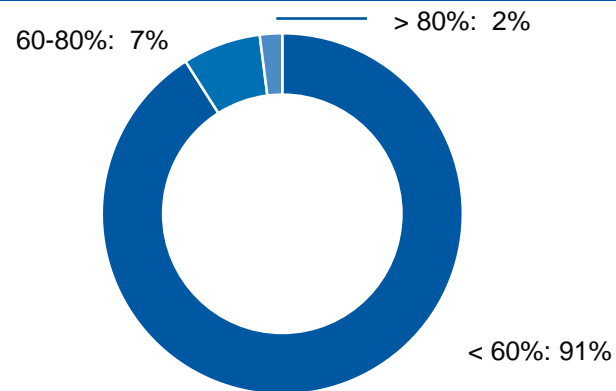
by property type



by performance



by LTV ranges¹⁾

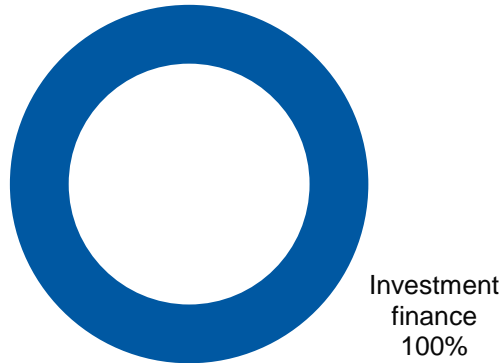


1) Performing business only, exposure as at 30.09.2016

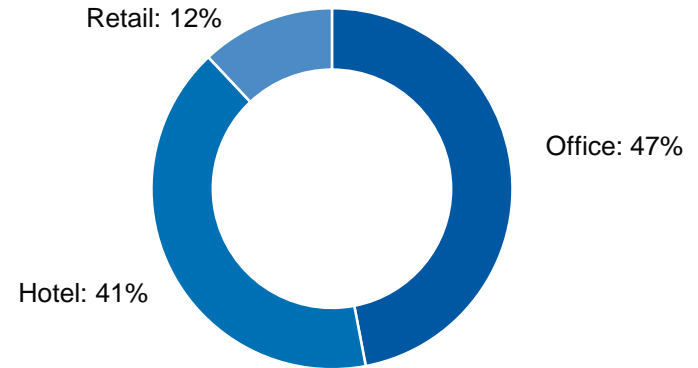
Asia credit portfolio

Total volume outstanding as at 30.09.2016: € 0.4 bn

by product type



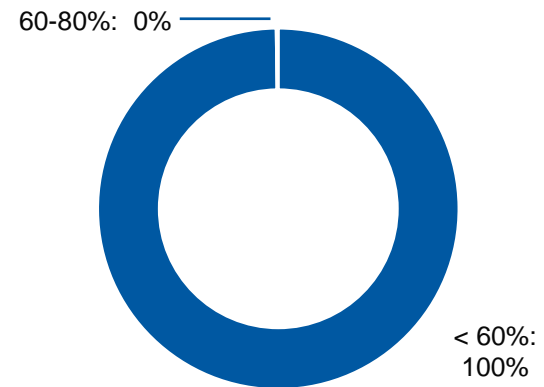
by property type



by performance



by LTV ranges¹⁾



1) Performing business only, exposure as at 30.09.2016

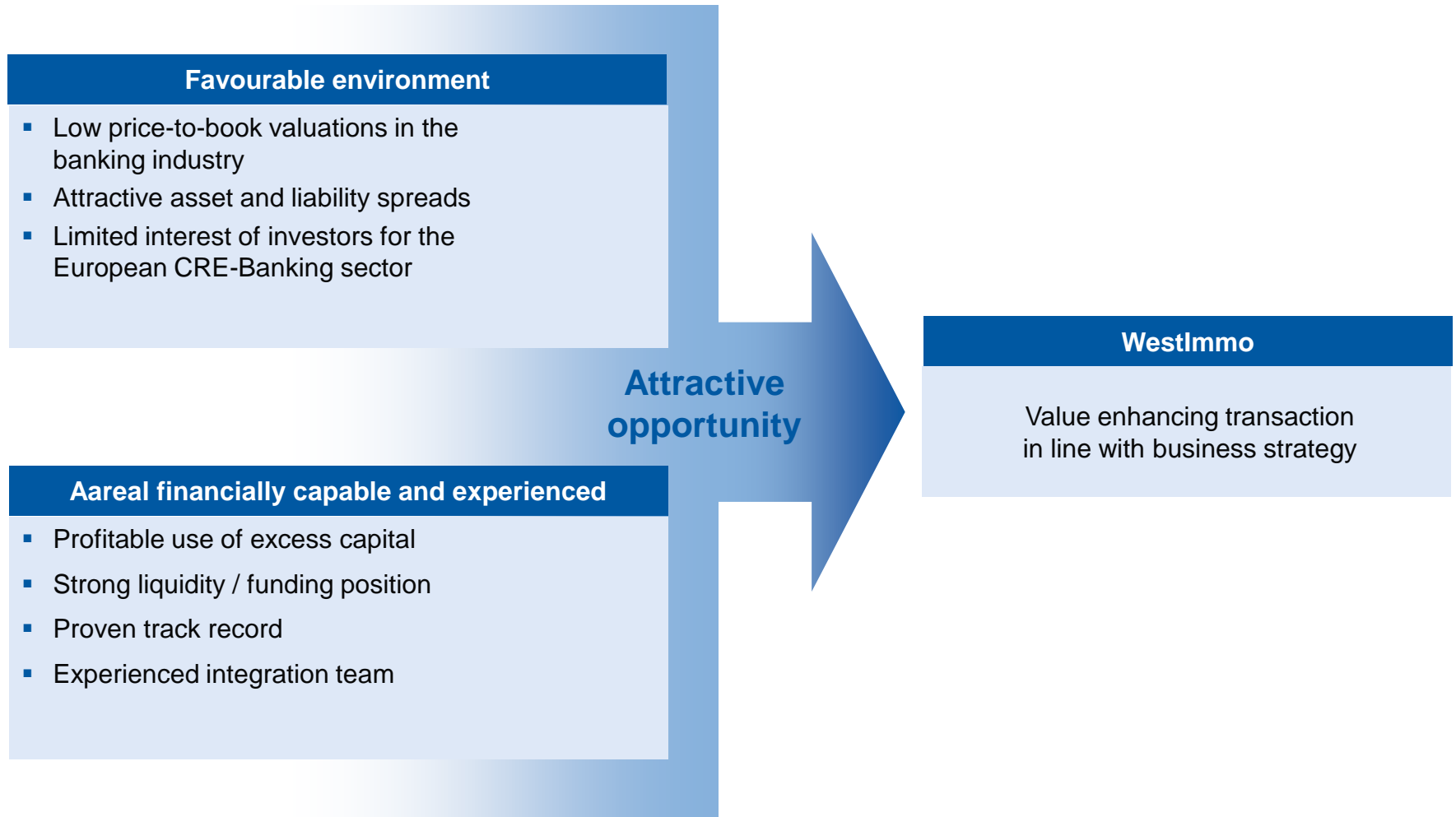


Appendix

Acquisition of WestImmo

Acquisition of WestImmo¹⁾: Strategic rationale

Attractive opportunity to pursue inorganic growth



1) As published February 22, 2015

Acquisition of WestImmo¹⁾: Strategic rationale

Value enhancing transaction in line with business strategy

- ➔ Transaction represents attractive opportunity for Aareal Bank to pursue inorganic growth as it is EpS accretive and creating shareholder value from day one while mid-term targets unchanged
- ➔ Acquisition using existing excess capital demonstrates strength and strategic capacity while generating further excess capital and therefore dividend distribution potential at the same time
- ➔ Immediate (inorganic) growth of interest earning asset base in times of increasing competition
- ➔ Perfect overlap to Aareal's core business further strengthens position as a specialised commercial real estate lender
- ➔ International well experienced staff and platform maintained despite currently not being allowed to write new business (acc. to EU-regulations) and therefore in run-down mode
- ➔ High diversification of CRE portfolio and conservative risk profile remains unchanged
- ➔ Optimisation of capital structure in line with communicated strategy

1) As published February 22, 2015

Acquisition of WestImmo¹⁾: Strategic rationale

Business ability even without new business origination

Strategy and business modell

- WestImmo is a specialist in international commercial real estate financing focussing on office, shopping center, hotel and logistics, headquartered in Mainz / Münster
- Additional activities for private clients and public sector
- Originally focussing on Europe, the US and Asia with international locations
- Balance sheet of ~ € 8.1 bn (~ € 3.3 bn RWA), thereof CRE business ~ € 4.3 bn, private clients ~ € 1.6 bn, public sector ~ € 0.8 bn (pro forma extrapolated as at 31.03.2015)
- 280 employees (~ 255 FTE)

History

- WestImmo was a subsidiary of former WestLB
- After the split of former WestLB into Portigon AG and Erste Abwicklungsanstalt (EAA) in September 2012, WestImmo became a 100%-subsidiary of EAA
- WestImmo has either to be sold or to be wind down (acc. to EU-regulations) and therefore was not allowed to write new business since H2 2012
- In order to prepare an open, transparent and non-discriminatory bidding process in H1 2014 non Pfandbriefbank “suitable” assets and liabilities were transferred to EAA via carve out

1) As published February 22, 2015

Acquisition of WestImmo¹⁾: Transaction structure

Attractive terms and conditions

Transaction

- All cash transaction to acquire 100% of the shares
- Via pre-closing carve out, all funding provided and financial guarantees given from EAA to WestImmo will be terminated.
At the same time specific assets will be transferred from WestImmo to EAA.
In addition Aareal Bank provides WestImmo an external credit- / liquidity-line
- Profit until closing to be paid to EAA
- Fair / conservative valuation; attractive asset and liability spreads logged in
- Extensive due diligence carried out
- Attractive purchase price of € 350 mn²⁾

Closing conditions

- Subject to BaFin / ECB approval
- Subject to anti-trust approval

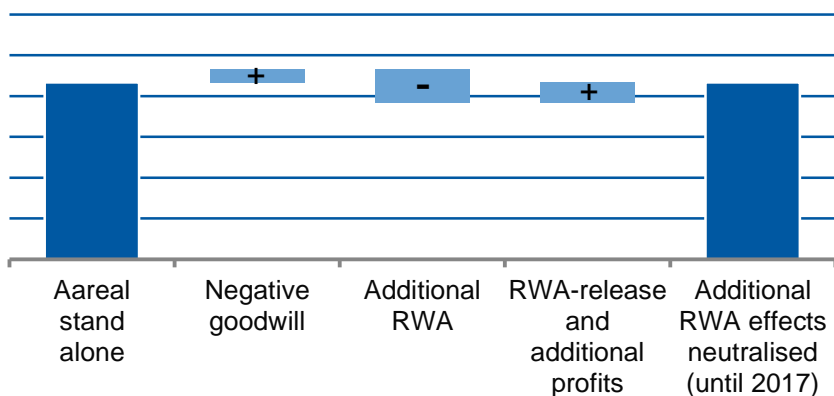
1) As published February 22, 2015

2) Subject to further adjustments

Acquisition of WestImmo¹⁾: Financials

Impact on capital ratios, EpS, and RoE²⁾

Expected CET1 effects (Basel III fully phased)



EpS

- Transaction is EpS accretive from day 1
- Expected cumulative EpS for the next three years > 3 €
- Substantial part of the capital currently absorbed by acquired RWA already to be released until 2017
- No capital relief from switch of rating model (WestImmo already on AIRBA)

Capital ratios:

- All cash transaction
 - Allocation of excess capital
 - RWA increase partly compensated by negative goodwill
- Expected pro forma CET1 as at 31.12.2015: 11.8%
- Bail in capital ratio expected above target (~8%)

RoE

- Transaction in line with mid term RoE target
- Pre-tax RoE target confirmed at ~12%

Dividend policy

- Reconfirming active dividend policy with payout ratios of ~50% (excl. negative goodwill)

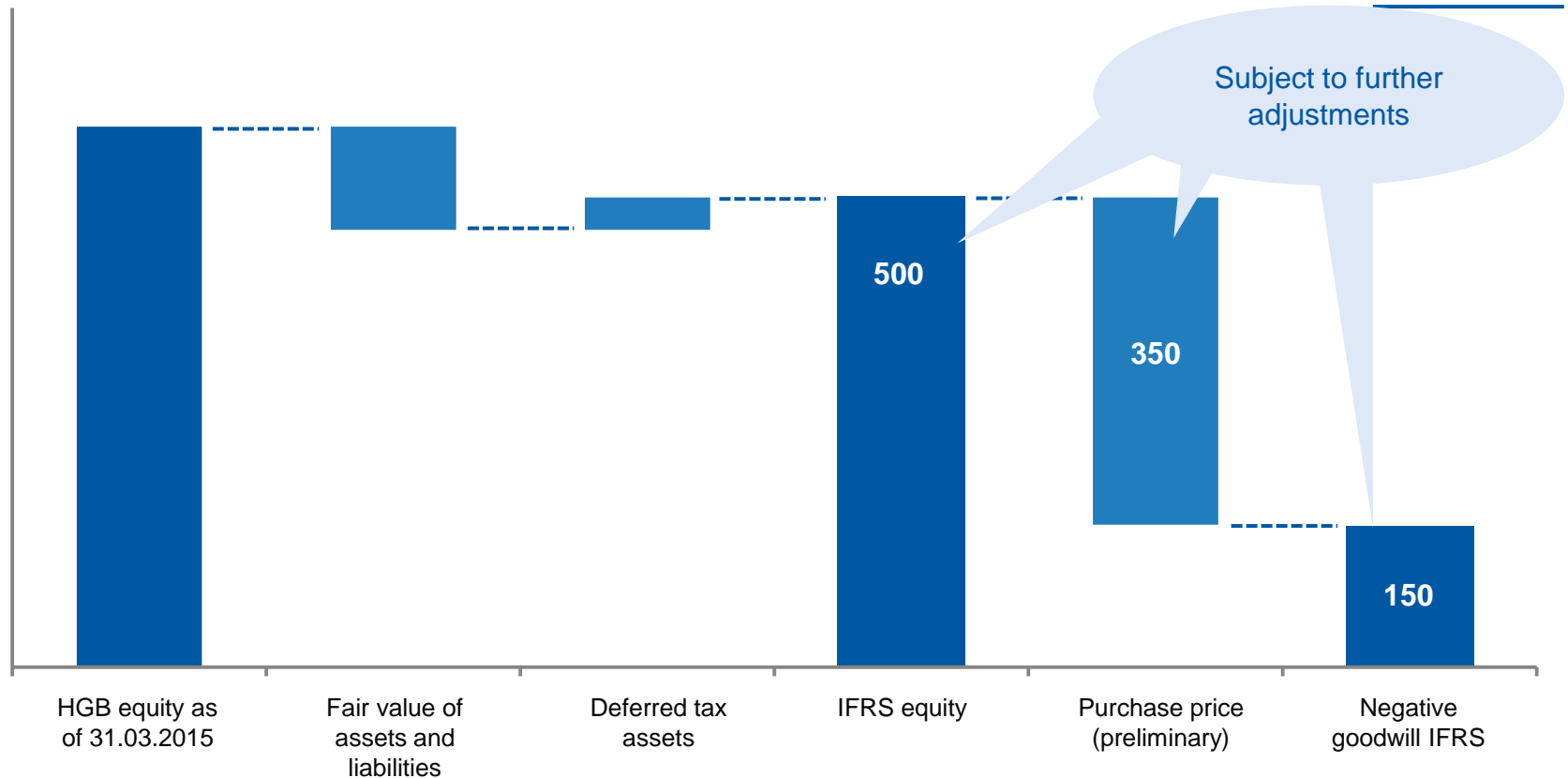
1) As published February 22, 2015

2) Pro forma extrapolated, assumed closing 31.03.2015

Acquisition of WestImmo¹⁾: Financials

Purchase price illustration²⁾

schematic



1) As published February 22, 2015

2) Pro forma extrapolated, assumed closing 31.03.2015

Acquisition of WestImmo¹⁾: Private client loans and Public sector loans²⁾

Private client loans

- Volume of € 1.6 bn extrapolated as at 31.03.2015
- All non performing loans have been carved out, purely performing business with average LtV < 60%
- Outstandings < 100 T€: 58%, 100 – 150 T€: 24%, 150 – 200 T€: 10%, 200 – 250 T€: 4%; 250 – 500: <4%; > 500 T€: <1%
> 50% in Baden Wuerttemberg, Bayern, Hessen, and NRW
- Historical defaults on that portfolio in the very, very low double digit area (bp)
- Potential risks from clawbacks regarding loan fees (“Rückforderungen von Bearbeitungsgebühren”) and faulty revocation clause (“fehlerhafte Widerrufsbelehrungen”) will be covered by the seller

Public sector loans

- Volume of € 0.8 bn extrapolated as at 31.03.2015
- Loans, warranties or guaranties to German sub-sovereign bodies

1) As published February 22, 2015

2) Pro forma extrapolated as at 31.03.2015

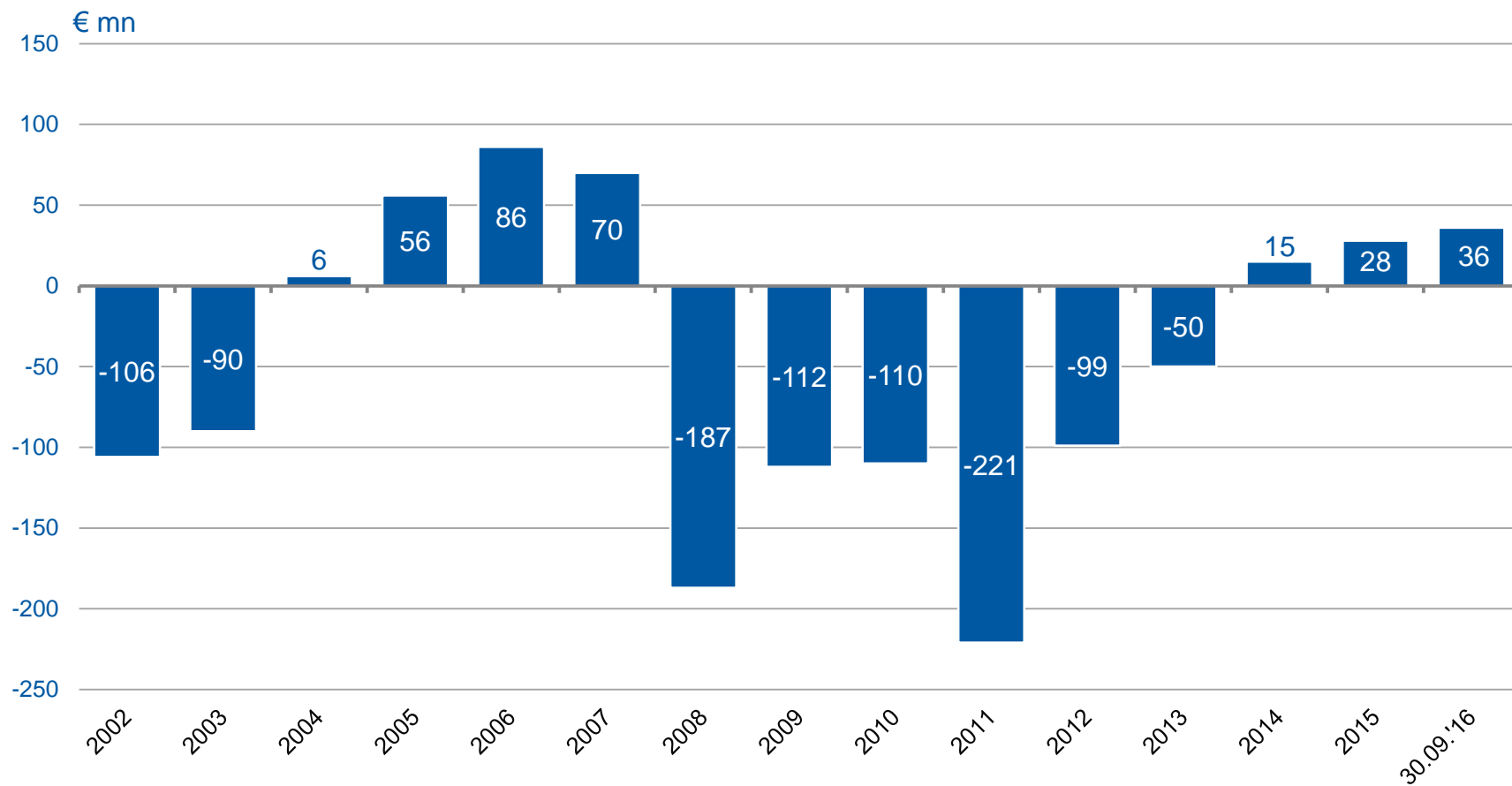


Appendix

Revaluation surplus

Revaluation surplus

Change mainly driven by asset spreads



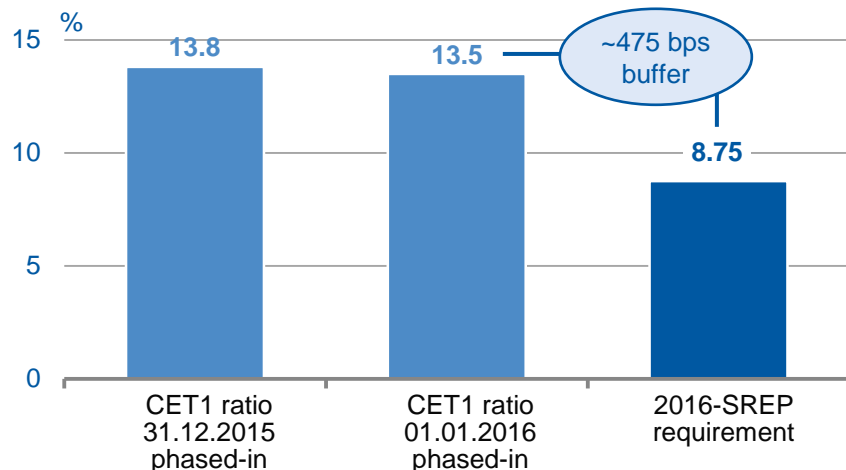


Appendix
SREP requirements and RWA-split

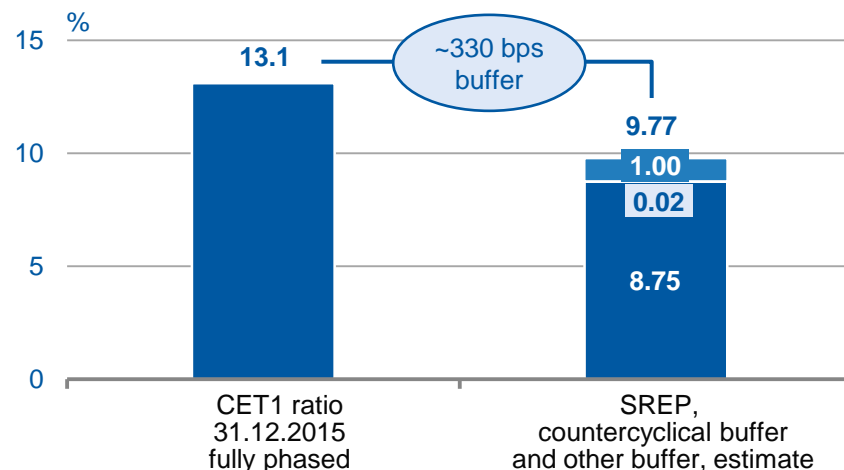
Capital ratios

SREP¹⁾ requirements

Capital ratios vs. SREP requirements (phased-in)



Capital ratios vs. SREP requirements (fully phased)



Main takeaways

- Aareal Bank's SREP requirement according to ECB notification: 8.75% CET1 including capital conservation buffer
- Other buffer of 1% (estimated - not yet announced); actual countercyclical buffer: 0.02%
- CET1 ratio of 13.1% (fully phased) as at 31.12.2015: ~330 bps above SREP requirement (including capital conservation buffer AND estimated other buffer)
- ~330 bps buffer currently available to cover uncertainties coming from regulatory environment

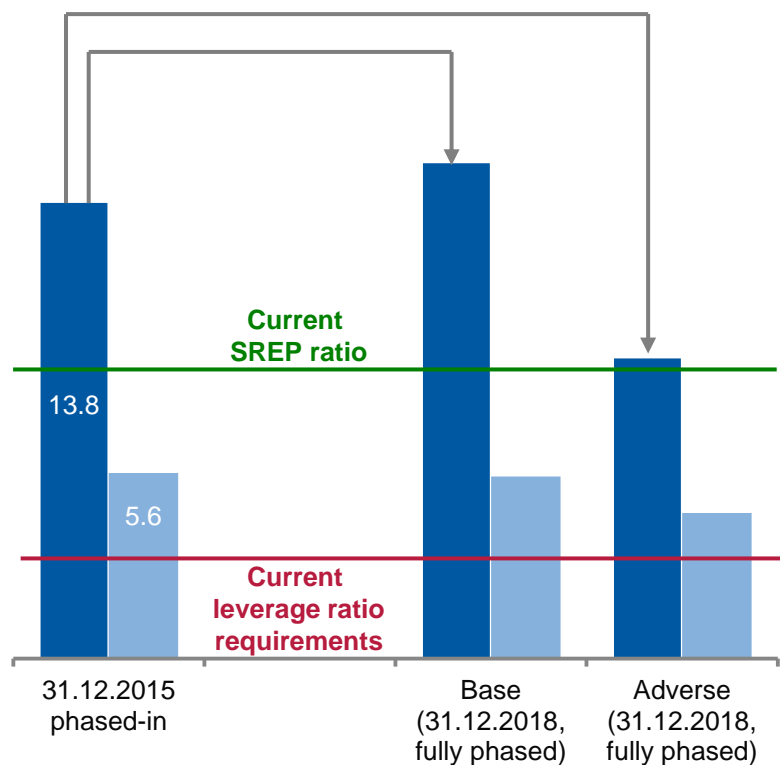
■ Other buffer, estimate
■ Countercyclical buffer
■ SREP requirement

As published April 14, 2016

1) Supervisory Review and Evaluation Process (SREP)

Stress Test

Capital ratio remain above current SREP requirements in adverse scenario



- Even in adverse scenario
 - CET1 ratio (fully phased) above current SREP requirements
 - Solid leverage ratio
- Current SREP ratio 8.75% including capital conservation buffer
- 2016 SREP letter expected H2 2016

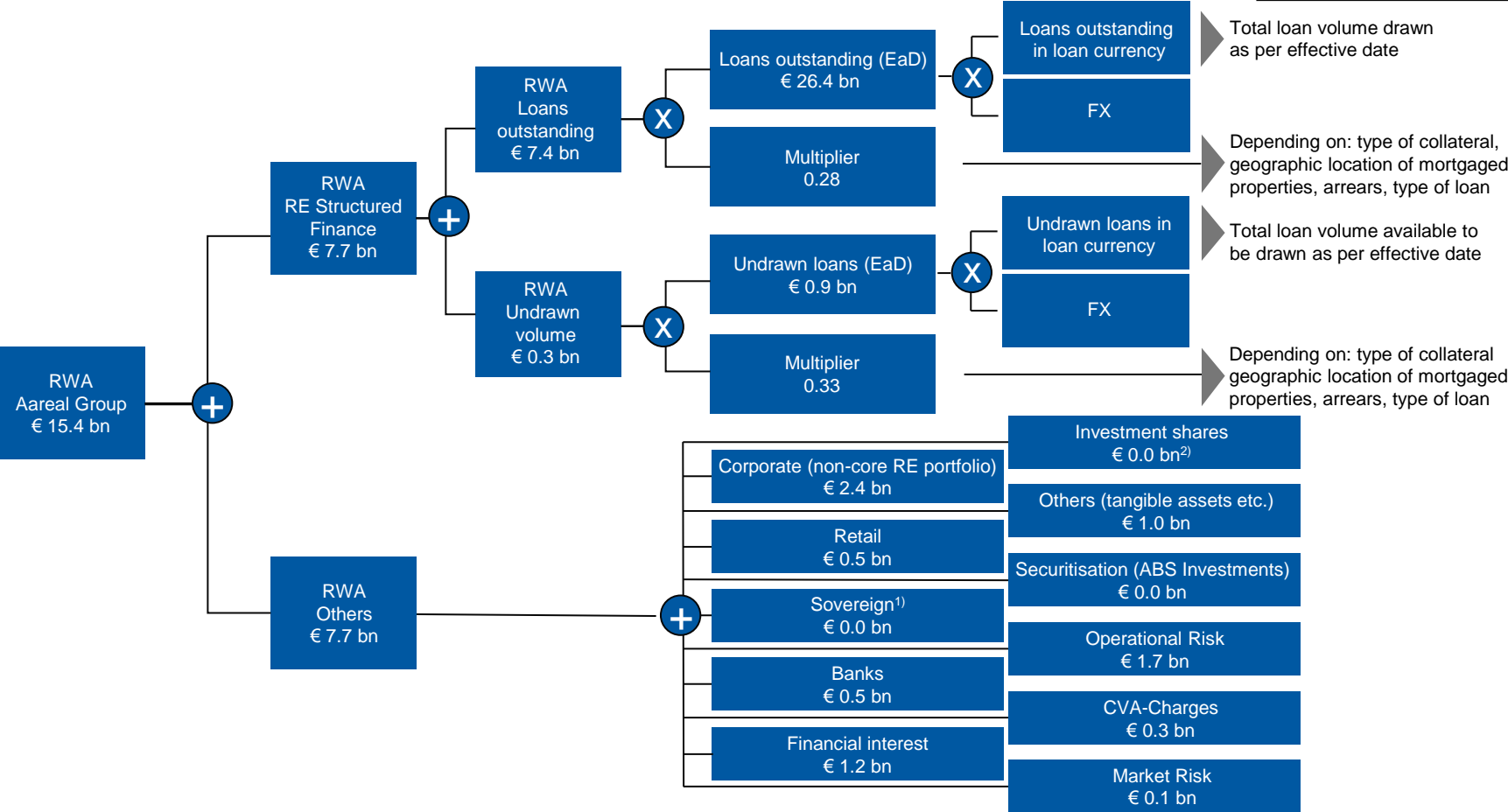
■ Leverage ratio
■ Common Equity Tier 1 (CET1)

Including phasing effects

From asset to risk weighted asset (RWA)

Essential factors affecting volume of RWA

Effective date 30/09/2016



1) Amounts to € 38 mn
2) Amounts to € 4 mn



Sustainability Performance

Aareal

Aareal Bank Group stands for solidity, reliability and predictability

Doing business sustainably

13.6% Common Equity
Tier 1 ratio¹⁾, exceeds the
statutory requirements



€ 28.4 bn
Valuable Property
Finance Portfolio²⁾



Aareon's products &
services boost our client's
sustainability records



Aareal Bank awarded
as top employer for the
9th time in succession



Systematic approach:
Code of Conduct
for employees & suppliers



Solid refinancing base:
Covered Bonds with best
possible FITCH rating

AAA rating
Mortgage Pfandbriefe
Public sector Pfandbriefe
FitchRatings

Aareal Bank & Aareon:
Certified Ecoprofit
companies, by using

100%
green electricity³⁾

Above-average results
in sustainability ratings



1) full Basel III implementation, as at 30 September 2016

2) CRE business only, private client business (€ 1.2 bn) and WIB's public sector loans (€ 0.7 bn) not included, as at 30 September 2016

3) at our main locations in Wiesbaden and Mainz, selected other German sites as well as at our Stockholm branch

Sustainability data extends the financial depiction of the Group

Key takeaways at a glance



Transparent Reporting – facilitating informed investment decisions

- 4th Sustainability Report “In Dialogue. By conviction.” published on 10 May 2016 (online-version¹⁾)
- Based on Global Reporting Initiative (GRI) G4 guidelines, in compliance with “in accordance - core” option, including GRI Materiality Disclosures Services check
- PricewaterhouseCoopers AG prepared a limited assurance engagement on materiality analysis / selected data



Sustainability Ratings – confirming the company’s sustainability performance



oekom research – Aareal Bank Group holds “prime status”, ranking among the leaders in its industry [[since 2012](#)]



Sustainalytics – Aareal Bank Group was classified as “outperformer”, ranking among the best 16% of its industry [[as per 12/2015](#)]



CDP – Aareal Bank Group achieved a result of “Management Level B”, well above average of peer group Financials (DACH region) / MDAX companies (“Awareness Level C”) [[Report 2016](#)]



imug – Aareal Bank was rated “positive BB” in the category “Uncovered Bonds”, ranking among Top 3 of 102 banks rated in total [[as per 01/2016](#)]

1) http://www.aareal-bank.com/fileadmin/DAM_Content/Konzern/dokumente/06_nachhaltigkeitsbericht2015_en.pdf



Definitions and contacts

Definitions

- **Structured Property Financing Portfolio** = Paid-out financings on balance sheet
- **New Business** = Newly acquired business incl. renewals + Contract is signed by customer + Fixed loan value and margin
- **Common Equity Tier 1 ratio** =
$$\frac{\text{CET1}}{\text{Risk weighted assets}}$$
- **Pre tax RoE** =
$$\frac{\text{Operating profit ./. income/loss attributable to non-controlling interests ./. AT1 coupon}}{\text{Average IFRS equity excl. non-controlling interests, other reserves, AT1 and dividends}}$$
- **CIR** =
$$\frac{\text{Admin expenses}}{\text{Net income}}$$
- **Net income** = net interest income + net commission income + net result on hedge accounting + net trading income + results from non-trading assets + results from investments accounted for at equity + results from investment properties + net other operating income
- **Net stable funding ratio** =
$$\frac{\text{Available stable funding}}{\text{Required stable funding}} \geq 100\%$$
- **Liquidity coverage ratio** =
$$\frac{\text{Total stock of high quality liquid assets}}{\text{Net cash outflows under stress}} \geq 100\%$$
- **Bail-in capital ratio** =
$$\frac{\text{Equity + subordinated capital}}{(\text{Long + short term funding}) - (\text{Equity + subordinated capital})}$$
- **Earnings per share** =
$$\frac{\text{operating profit ./. income taxes ./. income/loss attributable to non controlling interests ./. net AT1 coupon}}{\text{Number of ordinary shares}}$$

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